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FOREIGN ASSISTANCE AND RELATED AGENCIES APPROPRIATIONS FOR 1974

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS AND RELATED AGENCIES

OTTO E. PASSMAN, Louisiana, *Chairman*

JOHN J. ROONEY, New York
CLARENCE D. LONG, Maryland
EDWARD R. ROYBAL, California
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SILVIO O. CONTE, Massachusetts
LAWRENCE COUGHLIN, Pennsylvania

DONALD E. RICHBOURG, *Staff Assistant*

[1] Temporary appointment effective May 30, 1973.

PART 1

MILITARY ASSISTANCE
MILITARY CREDIT SALES
SECRETARY OF DEFENSE
RELATED AGENCIES:

- Asian Development Bank
- Cuban Refugees
- Export-Import Bank of the United States
- Inter-American Development Bank
- Inter-American Foundation
- International Development Association
- Migration and Refugee Assistance
- Overseas Private Investment Corporation
- Peace Corps (Action)

Printed for the use of the Committee on Appropriations

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FOREIGN ASSISTANCE AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1974

MONDAY, APRIL 2, 1973.

DEPARTMENT OF STATE

MIGRATION AND REFUGEE ASSISTANCE

WITNESSES

FRANK L. KELLOGG, SPECIAL ASSISTANT TO THE SECRETARY FOR REFUGEE AND MIGRATION AFFAIRS
ORSON W. TRUEWORTHY, DEPUTY DIRECTOR, OFFICE OF REFUGEE AND MIGRATION AFFAIRS
ROBERT V. CAREY, BUDGET AND FISCAL OFFICER, OFFICE OF REFUGEE AND MIGRATION AFFAIRS
MICHAEL M. CONLIN, DIRECTOR, BUDGET PLANNING AND PRESENTATION, DEPARTMENT OF STATE

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

[Note.—The appropriation provision for this account for 1973 had not been enacted at the time this budget was prepared. A temporary continuing appropriation is in effect for the period Oct. 15, 1972, to Feb. 28, 1973. The amounts shown below for 1973 are based upon this continuing resolution and do not reflect the President's initial budget request for 1973]

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
Direct program:			
1. Contribution to Intergovernmental Committee for European Migration	3,150	3,307	3,250
2. Contribution to United Nations High Commissioner for Refugees	1,050	1,000	1,100
3. Refugees from European Communist countries	6,702	2,550	2,400
4. Refugees from Communist China	500	500	500
5. Contribution to International Committee of the Red Cross	50	50	50
6. Refugees from East Pakistan	75		
7. African refugees	3,900	1,050	300
Total calendar year program	15,427	8,457	7,600
8. Administration	1,133	1,093	1,200
9. Adjustments to fiscal year basis:			
Calendar year 1971 program funds obligated in 1972	9,710		
Calendar year 1972 program funds obligated in 1973	−4,631	4,631	
Calendar year 1973 program funds obligated in 1974		−450	450
Calendar year 1974 program funds obligated in 1975			−450
Total direct program	21,639	13,731	8,800
Reimbursable program:			
10. Cuban refugee program	513	240	50
Total obligations	22,153	13,971	8,850
Financing:			
Receipts and reimbursements from: Federal funds	−513	−240	−50
Unobligated balance available, start of year	−5,088	−1,231	
Unobligated balance transferred from other accounts	−2,000		
Unobligated balance available, end of year	1,231		
Unobligated balance lapsing	99		
Budget authority	15,881	12,500	8,800

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

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	1972 actual	1973 estimate	1974 estimate
Budget authority:			
Appropriation	9,031	8,500	8,800
Transferred from other accounts	6,850	4,000	.....
Appropriation (adjusted)	15,881	12,500	8,800
Relation of obligations to outlays:			
Obligations incurred, net	21,639	13,731	8,800
Obligated balance, start of year	7,471	4,875	5,206
Obligated balance, end of year	−4,875	−5,206	−3,806
Adjustment in expired accounts	−16	.....	.....
Outlays	24,220	13,400	10,200

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Direct obligations:			
Personnel compensation:			
Permanent positions	689	655	672
Positions other than permanent	40	14	31
Other personnel compensation	1	1	1
Special personal services payments	24	30	30
Total personnel compensaton	754	700	734
Personnel benefits: Civilian	94	96	96
Travel and transportation of persons	21	21	23
Transportation of things	2	2	2
Rent, communications, and utilities	10	16	20
Other services	6,550	4,819	3,765
Supplies and materials	4	5	4
Equipment	10	3	6
Grants, subsidies, and contributions	14,193	8,069	4,150
Total direct obligations	21,639	13,731	8,800
Reimbursable obligations:			
Personnel compensation: Permanent positions	9	10	.....
Personnel benefits: Civilian	1	1	.....
Rent, communications, and utilities	4	.....	.....
Other services	500	229	50
Total reimbursable obligations	513	240	50
Total obligations	22,153	13,971	8,850

PERSONNEL SUMMARY

Total number of permanent positions	49	43	43
Full-time equivalent of other positions	2	1	1
Average paid employment	45	44	44
Average GS grade	7.5	7.9	7.8
Average GS salary	$11,728	$12,603	$12,687
Average grade and salary rates established by the Foreign Service Act of 1946 (22 U.S.C. 801-1158):			
Average grade:			
Foreign Service officer	3.3	3.7	3.7
Foreign Service reserve	1.5	1.5	1.5
Foreign Service staff	4.2	4.2	4.2
Average salary:			
Foreign Service officer	$25,602	$24,639	$24,922
Foreign Service reserve	$35,191	$35,682	$35,682
Foreign Service staff	$16,245	$16,468	$16,468
Average salary in foreign countries (local rates)	$7,083	$7,635	$8,197

(Clerk's note: After the budget was received in January, a budget amendment was received which increased the request by $704,000 to $9,504,000.)

Assistance to Refugees From the Soviet Union

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

[Note: The appropriation provision for this account for 1973 had not been enacted at the time this budget was prepared. A temporary continuing appropriation is in effect for the period Oct. 15, 1972, to Feb. 28, 1973. The amounts shown below for 1973 are based upon this continuing resolution and do not reflect the President's initial budget request for 1973.]

	1972 actual	1973 estimate	1974 estimate
Program by activities: Assistance to refugees from the Soviet Union		50,000	
Financing: Budget authority (appropriation)		50,000	
Relation of obligations to outlays:			
Obligations incurred, net		50,000	
Obligated balance, start of year			16,500
Obligated balance, end of year		−16,500	
Outlays		33,500	16,500

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Personnel compensation: Positions other than permanent		12	
Travel and transportation of persons		5	
Rent, communications, and utilities		1	
Other services		7	
Grants, subsidies, and contributions		49,975	
Total obligations		50,000	

Mr. Passman. The committee will come to order.

We begin this morning the hearings on the foreign assistance appropriation bill for fiscal year 1974. So many times in the past we see in the press where the administration asks for a certain amount of money for aid. Well, AID is an abbreviation for the Agency for International Development. It has nothing to do with the grand total of foreign aid. The fact of the matter is that AID represents a small percentage of the total amount requested for foreign aid, if you put all pieces of foreign aid and assistance together. I wanted the record to show that AID is an abbreviation for this one agency, and it doesn't represent the total amount requested for foreign aid.

SUBCOMMITTEE MEMBERS

We have several new members on our subcommittee this year and I would like to welcome them to the subcommittee at this time.

FISCAL YEAR 1974 REQUEST

Mr. Passman. The first item that we will consider will be that of the migration and refugee assistance program under the Department of State.

The fiscal year 1973 appropriation in the continuing resolution, I believe, was $8,500,000; is that correct?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. But your fiscal year 1974 estimate is $8,800,000; is that correct?

Mr. KELLOGG. It is, Mr. Chairman.

Mr. PASSMAN. Dr. Hannah has said many, many times before, and I think this pretty generally applies to all agencies, that there is an asking price and a taking price. This inflated figure over last year is your asking price at this point; is that correct, sir?

Mr. KELLOGG. It is, Mr. Chairman.

Mr. PASSMAN. And the taking price will be determined later, after we complete the examination. You will agree with that, will you not?

Mr. KELLOGG. Yes, Mr. Chairman.

GENERAL STATEMENT

Mr. PASSMAN. Our first witness will be the Honorable Frank Kellogg, Special Assistant to the Secretary of State for Refugee and Migration Affairs. I assume you have a statement you would like to make to the committee.

Mr. KELLOGG. I have, Mr. Chairman.

Mr. Chairman and members of the subcommittee: gentlemen, this is my third successive appearance before this subcommittee, and it is the first of my appearances at which I can report what I feel to be some measurable progress in the area in which I am engaged—that is, the alleviation of human misery in refugee situations, the reinforcement of the principles of protection of the persecuted, and the provision to large numbers of people of opportunities to seek to fulfill their aspirations in conditions of political freedom and personal dignity.

REFUGEE SITUATION

Indeed, I wish I were able to say that we are noting the early part of a trend leading toward a general easing of refugee and migration problems around the world, and to acceptance everywhere of the provisions of the Universal Declaration of Human Rights. In view of recent détentes in international relations, I hope profoundly that this is the case. But I think it is obvious that it is too early to draw meaningful conclusions. We continue to have refugees in large numbers from communism, from political and military conflict, from tribal, religious and other persecutions. We detect grounds for encouragement but overall, at this time, we see no significant relief in the total operational load abroad. Locales and situations change, but as we have for many years, we continue to count the world refugee population in the millions of human beings.

SOUTH ASIA

When I last testified here, the most pressing refugee situation involved the nearly 10 million Bengalis who had fled their homes in what was then East Pakistan, and who were being cared for in India in one of the most massive single humanitarian assistance programs in history. What we most feared, at that time, was deterioration into another UNRWA-type, long-range relief program involving multitudes

of people required to subsist for years on end in crowded camps, deprived of identity, self-respect, and hope.

The South Asian situation, as you know, has largely resolved itself. There still are human problems in the subcontinent—Biharis in Bangladesh, Bengalis in Pakistan, prisoners of war under continued detention. But the great mass of refugees in India returned swiftly to their towns and villages soon after establishment of Bangladesh, where, if conditions are uncertain, at least they are back at their homes and are reestablishing their lives free of the threat of physical violence.

SUDAN

A less dramatic but equally satisfactory development has come in the Sudan. There, after 17 years of conflict, government and rebel leaders have reached an accommodation which has resulted in a resettlement program in the south, operated under United Nations auspices with the support of governments and voluntary agencies including our own. Scores of thousands of refugees already have returned and are resettling at their former homes. The total, we believe, will reach 680,000 over coming months.

SOVIET JEWS

A third development on the encouraging side has been the movement from the Soviet Union of Jews wishing to settle in Israel. This migration, which Soviet authorities permitted to accelerate during 1971, picked up momentum during 1972; Israel received about 31,500 of these immigrants during the year. The Congress provided $50 million in fiscal year 1973 to help with their transport and resettlement. We are expending these funds through the Intergovernmental Committee for European Migration (ICEM) and through voluntary agencies, principally United Israel Appeal (UIA). In August 1972, Soviet imposition of fees—to reimburse the state for education costs of migrating citizens—threatened to inhibit the departure to Israel of some individuals. Since then many Soviet Jews have had to pay the fees in order to depart, and there are known cases where departures have not taken place because of inability to pay the fees; more recently there have been cases of the fees being waived. Meanwhile the annual rate of immigration to Israel from the Soviet Union has held up at pre-August 1972 levels—that is, to the rate of about 31,500 persons per year.

EMERGENCY RELIEF SITUATIONS

One event during the past year has been ominous in its implications, but satisfying in its demonstration that the international humanitarian community remains responsive in emergency refugee situations. When Uganda, on short notice, expelled about 45,000 residents of Asian origin, the crisis was met with decision, compassion, and in many cases with happy results. Already we are hearing success stories from some of the 1,500 Ugandan Asians who were admitted to the United States and who were established by generous and compassionate Americans in communities across the country. A final 1,700

of those who were removed from Uganda remain in European camps, and it is a present concern of the U.N. High Commissioner to find homes for them also.

U.S. LEADERSHIP IN REFUGEE AND MIGRATION AFFAIRS

I am proud as an American that in the programs I have cited, and in the longer standing programs in which my office is engaged, the United States continues to play a role of leadership in refugee and migration affairs. Our financial contributions to these programs—almost all of which are international in character—are not overriding. Indeed, some nations, particularly in Western Europe, in terms of population and wealth are more generous than we. But in the case of the Sudanese operation, as earlier in the South Asian emergency, it was the United States which responded immediately and first to an appeal for help from the U.N. High Commissioner for refugees.

We have not sought to dominate these programs, but we have, in my opinion, maintained international respect for American principles of humanitarianism and the dignity of man, and in specific cases we have set examples and led the way. By we, I mean not the Government alone, but our Government in concert with our voluntary agencies, and with the millions of Americans who contribute to, work for and believe in these organizations. All of our programs are conducted in intimate association with operations of the voluntary agencies, a fact which we think is one of the strengths not only of American but of international refugee assistance.

Refugees have been with us, and have contributed to world problems, for as long as any of us can remember—and as I said earlier, despite success in resettlement, they still are with us.

Communism in Asia, in Europe, in the Caribbean continues to generate refugees and migrants. The rates of flow vary from individual countries, but still people stream out, fugitives from oppression, seekers of freedom and of social and economic fulfillment.

CONFLICTS OF EMERGING NATIONS

Conflicts between and within some of the emerging nations, particularly in Africa, are of additional concern. Refugees this year from tribal conflict in Burundi alone, as an example, number 85,000 people. Others have fled from southern Africa, including the students whose tuition—the smallest item in our line budget—my office is assuming from AID. In total, according to the U.N. High Commissioner, refugees in Africa as of now number nearly a million souls.

INTERNATIONAL REFUGEE ORGANIZATIONS

We deplore situations which generate refugees, not only because these situations stem from oppressions which violate what Americans believe and from disturbances between nations, but also because the mere existence of refugees tends to exacerbate international relations. In this context it is satisfying, I think, that the international organizations which have been established to operate refugee programs continue to prove themselves equal to the demands of old and new refugee problems. The U.N. High Commissioner for Refugees (UNHCR), the Intergovernmental Committee for European Migration (ICEM), the International Committee of the Red Cross (ICRC), all of which receive U.S. Government support under this appropriation, are in my opinion indispensable to our conduct of foreign affairs. The U.S. refugee program (USRP) and the modest Far East refugee program (FERP) support some of these programs and also assist in the programs of the voluntary agencies—organizations which draw most of their resources from the generosity of the American people, and whose employees and volunteers can be found in the frontlines in every refugee operation.

Our appropriation requests are detailed in accompanying documents. Mr. Chairman, I believe we can substantiate the need in each case. I will be happy to elaborate, or to answer any questions.

Mr. PASSMAN. Thank you for your statement.

JUSTIFICATION MATERIAL

We will insert the justification material in the record at this point.

[The information follows:]

DEPARTMENT OF STATE
MIGRATION AND REFUGEE ASSISTANCE

Appropriation Request, 1973	$ 8,500,000
Transfers from Foreign Assistance funds by Presidential Determination Orders No.:	
73-1	2,500,000
73-6	1,500,000
Total Availability 1973	12,500,000
Estimate 1974	8,800,000
Decrease	- 3,700,000

Program by Activities:	1973 Appropriation	1973 Presidential Determination	1973 Total Program	1974	Increases/Decreases 1973 Appropriation	Increases/Decreases 1973 Total Program	Justification Page
1. Intergovernmental Committee for European Migration (ICEM)	$3,307,000	-	$ 3,307,000	$3,250,000	$- 57,000	$- 57,000	3
2. United Nations High Commissioner for Refugees (UNHCR)	1,000,000	-	1,000,000	1,100,000	+100,000	+ 100,000	4
3. United States Refugee Program (USRP)	2,550,000	-	2,550,000	2,400,000	-150,000	- 150,000	6
4. Far East Refugee Program (FERP)	500,000	-	500,000	500,000	-	-	8
5. International Committee of the Red Cross (ICRC)	50,000	-	50,000	50,000	-	-	9
6. African Refugees	-	$4,000,000	4,000,000	300,000	+300,000	-3,700,000	11
7. Administration	1,093,000	-	1,093,000	1,200,000	+107,000	+ 107,000	13
Total Obligations	8,500,000	4,000,000	12,500,000	8,800,000	+300,000	- 3,700,000	

MIGRATION AND REFUGEE ASSISTANCE

General Statement

This request for $8,800,000 is to provide funds to the Department of State for contributions to the Intergovernmental Committee for European Migration (ICEM), the United Nations High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC); for assistance to refugees from Eastern Europe, the Far East, and Africa. These programs are authorized under Public Law 87-510, the Migration and Refugee Assistance Act of 1962, except for the contribution to the International Committee of the Red Cross which is under the authority of Public Law 89-230.

The objectives of this program are to promote, through humanitarian means, peace throughout the world, the stability of nations, the preservation of asylum and to seek the extension of individual human liberties. We support self-determination and encourage the development of free institutions. To realize these objectives, we must exemplify in our national behavior the freedom and humanity which we believe belong to all men.

The existence of unresolved refugee problems is a challenge to the sincerity of our objectives. Refugee problems arise from oppression or aggression by Communist or other totalitarian regimes or from political conflict between or within nations. They usually are of international political concern because they constitute symbols of human want and loss of personal dignity, cause international controversy and threats to the peace, and impede over-all stability, especially in developing countries. It is important that we deal with these problems in a manner consistent with our national heritage and purposes and in a way which will help to bring about solutions to the broader problems from which they stem.

Although by working in concert with other nations and international organizations a great deal has been accomplished in helping refugees become independent and productive citizens, refugee problems are as important as ever in relation to our national objectives. As long as unresolved refugee problems exist, the United States must continue to take all necessary action for their solution.

1. INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION (ICEM) - $3,250,000

The amount proposed for the United States contribution to the Intergovernmental Committee for European Migration (ICEM) for 1974 is $3,250,000. It is $57,000 less than that proposed for 1973.

ICEM was established in 1951 by non-communist governments, dedicated to the principle of freedom of movement. Its formation was an initiative of the U.S. Congress. The organization, comprised of 31 member governments, repeatedly has demonstrated its value to the United States and other countries by helping the major asylum countries keep the doors of asylum open. It is the best equipped organization for the large scale and economical movement of refugees and migrants. For example, ICEM is playing a major role in assisting Jewish refugees from the Soviet Union and other Eastern European countries in their transportation from Vienna to Israel. In Africa in October of 1972, ICEM was called upon to assist in the emergency situation in Uganda. In a ten-day period, ICEM completed the processing and evacuation of some 4,600 Asians from Uganda to Europe.

As in previous years, the proposed contribution to ICEM in 1974 will be allocated to the Refugee and Latin American Sections of ICEM's Operational Budget and to its Administrative Budget. In addition, funds will be allocated from reserve loan funds to replenish the ICEM Travel Loan Fund for Chinese Refugees, which ICEM is administering at our request. The Loan Fund provides interest-free travel loans to needy Chinese refugees entering the U.S. under 7th Preference, (Section 203(a)7 of the Immigration and Nationality Act) similar to that provided for refugees of European origin entering the U.S. Also reserve loan funds will continue to be used to the maximum extent to provide loans for Jewish and other refugees from Eastern Europe.

2. UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR) - $1,100,000

For 1974 it is proposed that the United States contribute $1,100,000 to the United Nations High Commissioner for Refugees (UNHCR). The Office of the UNHCR is the focal point for international assistance to refugees, and is the key instrument throughout the world for providing international protection for refugees and for promoting permanent solutions to their problems.

The United States contribution to the High Commissioner's world-wide assistance program reflects the traditional humanitarian concern of the American people; it relates directly to U.S. interests by seeking to ease the tensions inimical to the preservation of peace which arise out of economic and political difficulties connected with refugee situations. In addition, it asures that he is available when called upon to step into, on an extraordinary basis, such major refugee problems as that resulting from the flight of approximately 10 million Bengali refugees into India in 1971 and more recently the resettlement of some 680,000 refugees returning to their homes in the Southern provinces from within and outside of the Sudan.

While the UNHCR material assistance program aids refugees in Asia and Latin America and other continues to function as an essential supplement to USRP and ICEM in Europe, its major emphasis continues to be in Africa. In his efforts to alleviate the cruel and persistent refugee problems in Africa, the High Commissioner's program has been of particular importance to the U.S. by assisting in the solution of such problems where it would not be feasible or politically wise for the U.S. to provide direct assistance.

Due largely to the continually increasing numbers of refugees, the cost of the assistance program has steadily risen over the past several years. The 1970 program was for $6.0 million while the 1974 program is expected to exceed $8.5 million. The U.S. contribution since 1970 has remained at the $1 million level. In the same range of years other countries have increased their contributions by over 30% in the aggregate. An increase of $100,000 for 1974 is necessary to help keep pace with the urgent and growing refugee needs, to continue to demonstrate United States interest in sharing the increased burden of refugee problems and to encourage international support to reduce the severity of the problems caused by the flight of

persecuted people. This contribution of $1,100,000 will approximate 16% of all government contributions.

More specifically, approval of such an increase would be a step toward (1) supporting the kind of efforts we believe are consistent with U.S. foreign policy objectives; (2) enhancing the U.S. image of leadership in promoting effective humanitarian assistance for persecuted refugees and for the resolution of refugee problems; and (3) upholding our standing and views among the 31 member nations of the UNHCR Executive Committee, and indeed among the members of the United Nations generally.

3. UNITED STATES REFUGEE PROGRAM (USRP) - $2,400,000

The sum of $2,400,000 is being requested for 1974. This is $150,000 less than the availability for 1973.

U.S. Government activities on behalf of refugees throughout the world demonstrate the concern of the American people for the victims of persecution and oppression. This is in accord with the principle of freedom of movement for all persons and with our obligations under the 1951 Convention Relating to the Status of Refugees and the Protocol thereto. Other objectives include:

- to restore and advance peace through the reduction of tensions and unrest that refugees may engender.

- to assist in the integration of uprooted people in asylum countries, in new communities or in their former homes, including acceptance in the United States of a fair share of these people.

- to stimulate generous sharing by other governments of assistance requirements in meeting the needs of refugees.

Since its inception in 1952, the United States Refugee Program (USRP) has met the above objectives on behalf of refugees from communist countries. Most of these refugees are temporarily havened in Western European countries. Other have received temporary asylum in countries throughout the world. These countries pay all the costs for maintaining refugee camps, including utilities, upkeep and food.

The immediate aim of the USRP program is to ensure that the refugees do not become a prolonged burden of these countries of first asylum and to thereby induce these countries to maintain a liberal asylum policy. This is accomplished by

permanently resettling these refugees in countries throughout the world. Working through contacts with such agencies as the American Fund for Czechoslovak Refugees (AFCR), the Polish American Immigration and Relief Committee (PAIRC), the International Catholic Migration Committee (ICMC), the World Council of Churches (WCC), the Tolstoy Foundation (TF), the International Rescue Committee (IRC), the American Jewish Joint Distribution Committee (AJDC), and the Hebrew Immigration Aid Society (HIAS), as well as with the Intergovernmental Committee for European Migration (ICEM) and in cooperation with the United Nations High Commissioner for Refugees (UNHCR), the program assures expert resettlement counselling, including a wide range of visa documentation, medical, language and orientation and transportation assistance, all designed to speed the refugees' establishment in his new homeland. When determined vital to the successful completion of such resettlement, the agencies also accord selective interim material assistance on the basis of demonstrated need. Through such projects we have helped more than 365,000 refugees.

Because of the nature of communist societies, it is not possible to project accurately the exodus of refugees. Many imponderables are present, including tension, unrest and ferment that have existed in Eastern Europe with small chance of permanent abatement. The relaxation of travel restrictions within these countries results in a sharp rise in the number of refugees.

Although the number of refugees leaving Eastern Europe with the exception of Jews from Russia has not appreciably changed over the past couple of years, the unsettled potential remains and could result in a dramatic increase in the refugee flow. The Department's estimate is based on an experience factor from the past two years and is the minimum necessary to meet the requirements of conducting an effective program which will continue to provide essential services to individual refugees.

4. FAR EAST REFUGEE PROGRAM (FERP) - $500,000

This request of $500,000, the same amount available in the current fiscal year, is for assistance to refugees from mainland China under the Far East Refugee Program (FERP).

The objectives of the FERP are to demonstrate the continuing friendship of the American people for the Chinese people. We also feel that it is important to show through this modest effort that our country's well-known global concern and assistance for the homeless and persecuted includes Chinese among other Asians.

The FERP program concentrates on projects undertaken on a very selective basis, designed to meet highly conspicuous needs. The program attempts to meet the immediate requirements of Chinese refugees who have fled the mainland and demonstrate visibly our continuing interest in the well-being of those who have sought freedom at great risk. Through contracts with voluntary agencies such as Catholic Relief Services (CRS), Hong Kong Christian Service (HKCS), International Rescue Committee (IRC), International Social Service (ISS), and Lutheran World Federation (LWF), FERP assistance includes such other selective assistance as temporary care and maintenance, local re-establishment, counseling for emigration to the U.S. of those refugees who qualify under 7th Preference (Section 203(a)7 of the Immigration and Nationality Act). Also included in this budget are construction projects such as housing, community centers, and clinics in selected areas of greatest need.

In 1971, and again in 1972, there was a sharp increase in the number of refugees who fled from China into Hong Kong. With many of them publicized as "freedom swimmers", these refugees were double the number of those who fled to Hong Kong in 1970.

Given the increase in the flow of Chinese refugees, and continuing inflation, it is essential to maintain FERP funding at the present level. During 1974, it is anticipated that $250,000 will be allocated for services to individual refugees and $250,000 for construction projects.

5. THE INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC) - $50,000

The United States, under the authority of Public Law 89-230, has contributed $50,000 annually toward the basic expenses of the International Committee of the Red Cross since 1966. The fundamental purpose of ICRC is the promotion and supervision of the application of the provisions of the Geneva Conventions of 1949 to which the United States is a party. These international treaties deal with the humanitarian treatment of prisoners of war, the protection of civilians in time of war and the amelioration of the conditions of wounded, sick and shipwrecked members of the armed forces. These activities of the ICRC have been effectively continued throughout the years with related and consistently increased activity in the fields of humanitarian relief and disaster and supporting assistance. In many cases, their assistance is in direct response to a request from the United States Government. This organization is Swiss in its constitution and personnel. But it operates on an international level, has the ability to act as a neutral institution, whether in cases of international or national sensitivities, hostilities or tension. The scrupulous adherence of ICRC to the principle of political impartiality is recognized throughout the world. ICRC is thus often able to enter and act decisively and in a timely way in situations in which, because of political sensitiveness, other organizations or governments are either unable to act effectively or are not permitted to participate. Under such circumstances ICRC is often additionally called upon to meet compelling relief needs, examples being the Nigerian civil war and the Arab-Israeli conflict.

Recent major ICRC activities include its persistent efforts on behalf of prisoners of war in the Indo-Chinese conflict. With its role of inspecting POW camps in Southeast Asia coming to a close, ICRC plans to direct its attention and energy toward other needs, in Southeast Asia, including care of war victims.

Another area of concern to ICRC is India-Pakistan. Its activities there include protection of prisoners of war and civilians, care of the wounded and sick, the tracking of missing persons and the transmission of family messages.

Also worthy of note among ICRC's relief and disaster efforts are its supporting assistance activities in the Middle East, negotiations for the release of passengers of hijacked aircraft, visits to detainees in countries of all areas of the world, the issuance of ICRC travel documents to thousands of stateless Asian-Ugandians, and sponsorship of international conferences on humanitarian law in armed conflicts (the Geneva Conventions). All these activities are directly related to protection, relief and disaster assistance, and all serve the national interests of the United States, including the attainment of our foreign policy objectives.

6. SOUTHERN AFRICAN REFUGEE EDUCATION PROJECT - $300,000

In 1974, the Department will assume the administration and funding of the Southern African Refugee Education Project. The budget request for this program is $300,000.

This project provides assistance to asylum countries to finance the education of selected refugees from minority-controlled areas of Southern Africa. Students are supported at the secondary level in Zambia and at secondary and higher levels elsewhere in independent Africa.

This is successor to an AID-administered project which began in 1963, the project is concentrated around the Nkumbi secondary school in Zambia. Built specifically for refugee education, this school was transferred in January 1971 to the Government of Zambia, which assumed full responsibility to continue and expand refugee training with multi-donar assistance.

In addition to the normal academic curriculum to permit college entrance to those best qualified, the school provides special courses, (e.g., office management, typing and shorthand) and vocational training opportunities (e.g. agriculture and motor mechanics) for those not scheduled or suited for college entrance.

Aside from meeting obvious educational and humanitarian needs, this project is directly related to U.S. foreign policy interests:

-- It provides tangible evidence of U.S. sympathy and support for the goal of self-determination.

-- It helps ensure that, should independence come to one or more of the minority-controlled areas, there will be a cadre of trained and qualified individuals available to operate vital services of government and business.

-- It provides a means for a continuing dialogue with the present and potential leadership of the liberation movements.

-- It provides the individual refugee student with an alternative to educational opportunities offered by communist countries.

It is envisioned that the project in 1974 would support up to 145 students at an annual cost of approximately $2,000 per student.

7. ADMINISTRATION - $1,200,000

The request for administrative expenses is $1,200,000, an increase of $107,000 over the 1973 request. This increase is to fund mandatory within-grade salary increases, overseas wage and price increases and other necessary administrative increases. It is the minimum necessary to meet day-to-day management and support requirements in 1974.

In addition to providing immediate support and direction to the ongoing programs for which funds are being requested in this budget, the Office of the Special Assistant for Refugee and Migration Affairs is responsible for the formulation of broad U.S. Government refugee and migration policy as well as coordination and evaluation of the U.S. effort in this field. The responsibilities include such varied activities as (1) asylum requests and policies, (2) the implementation of the Refugee Protocol (e.g. the refugee travel document) and (3) coping with emergency and chronic world wide refugee problems.

Responsibility for refugee and migration operations, reporting and liaison in the European and Near East area is centralized in the Refugee and Migration Section, U.S. Mission, Geneva; in the Far East, the Refugee and Migration Unit, Consulate General Hong Kong. The overseas personnel are responsible for all refugee and migration matters arising within their assigned geographic areas, including preparation of field program proposals, maintenance of registration lists of refugees, screening of refugees, and supervision of contracts including end-use audits to assure contract compliance. The overseas staff observe and report on refugee programs conducted by the host governments, the Intergovernmental Committee for European Migration (ICEM), the U.N. High Commissioner for Refugees (UNHCR) and private voluntary agencies. Further, they undertake, where appropriate, to ensure that United States interests in refugee and migration matters in their areas are protected. The personnel also maintain liaison with officials of the host governments, international organizations, and voluntary agencies to ensure the coordination of the various refugee programs.

COMMITTEE RULES

Mr. PASSMAN. We are going to abide by the 5 minute rule as set forth in the rules of the committee. I am going to yield to the distinguished gentleman from Kansas, Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

SOVIET UNION EXIT FEES

Mr. Kellogg, on page 4 of your statement you say there have been cases recently wherein exit fees charged by the Soviet Union for emigrating Jews are being waived. Is this a general policy change, or has this just happened in isolated cases?

Mr. KELLOGG. Mr. Congressman, it has been very hard to determine exactly what the Soviet position is with respect to the emigration fees. In certain instances they have been charged. In other instances, for no apparent or discernible reason, they have been waived. Recently the trend seems to be more forgiveness of the emigration fee for education than in the past.

AFRICAN REFUGEES

Mr. SHRIVER. The United States put up $4 million in fiscal 1973 for African refugees, due to a Presidential determination. What program was that?

SUDAN

Mr. KELLOGG. This was for two emergencies, Mr. Congressman. One was the Sudanese emergency program resulting from the cessation of war and the peace of Addis Ababa, which brought a frail and fragile peace to that part of the world after a civil war that lasted 17 years. It permitted some 600,000 refugees to start homeward, and to aid that very important chance for peace, we asked for and received $2,500,000 in Presidential determination orders.

UGANDA

The second program was $1,500,000, which we asked, through a Presidential determination order, for the dramatic and urgent Ugandan-Asian program. Those were the two programs that you refer to, Mr. Congressman.

Mr. SHRIVER. The last one was the Ugandan?

Mr. KELLOGG. Yes, sir.

Mr. SHRIVER. What was our role in that?

Mr. KELLOGG. The circumstances were as follows, Mr. Congressman: General Amin, President of Uganda, without prior notice, determined to evict some 40-odd thousand Ugandan Asians who considered Uganda to be their home. Of these, people in the area of between 4,000 and 5,000 were stateless; that is to say, they had no status either in Uganda itself, or in any other country. The balance were nationals of the United Kingdom or India or Pakistan, and therefore they had a claim on somewhere to go.

The United States determined that the most tragic, those that most needed help, were the Ugandans who were in fact stateless. Therefore a portion of the $1,500,000 which we received was used to help pay

for care and maintenance and transport these stateless Ugandans to various points in Europe—notably Italy, Austria, Belgium, Spain, and Malta—wherever they could find a place to give them temporary refuge. The balance of the money was used for the care and maintenance, transportation, and resettlement of approximately 1,000 who came to this country.

Mr. SHRIVER. Through what agency was this money contributed?

Mr. KELLOGG. Two international agencies, Mr. Congressman, one being the Intergovernmental Committee for European Migration (ICEM), and the other the United Nations High Commissioner for Refugees. The money used for the stateless Asians coming to this country was channeled through the seven American voluntary agencies participating in the resettlement program.

RELOCATION OF UGANDAN REFUGEES TO GREAT BRITAIN

Mr. SHRIVER. Did many of the people go to Great Britain?

Mr. KELLOGG. Most of the Ugandan Asians who had United Kingdom passports did go to Great Britain.

Mr. SHRIVER. Which would be approximately how many?

Mr. KELLOGG. Some 26,000.

Mr. SHRIVER. Great Britain participates in the agencies that you mentioned a moment ago, like ICEM, do they not?

Mr. KELLOGG. In this particular instance, Mr. Congressman, Great Britain did use the facilities of ICEM for the organization of the movement of the Asians to resettlement camps in the United Kingdom.

Mr. SHRIVER. But Great Britain is not a member of ICEM?

Mr. KELLOGG. No, it is not, sir.

Mr. SHRIVER. I think my 5 minutes have gone by.

COMMITTEE RULES

Mr. PASSMAN. Under the rules by which this subcommittee is operating, so as to adhere to the rules adopted by the full committee, each member of the subcommittee may use 5 minutes to question the witness. After they have consumed 5 minutes, the floor is returned to the chairman and the chairman consumes all the time that is required to make the record, after which he yields to the members and they can take as much time as they wish to ask questions. There is no time limitation on the members of the committee. You can consume a day or more if it is your desire.

So if you do not have time to ask all your questions under the 5-minute rule, you will be privileged to go into greater detail later. At this time I yield to Mr. Bevill from Alabama.

Let me state for the record, also, that we alternate from the Republicans to the Democrats when we are asking questions. I think that is a fair way to handle it, so each one will have an opportunity to examine.

Mr. Bevill?

FISCAL YEAR 1973 AVAILABILITY—FISCAL YEAR 1974 REQUEST

Mr. BEVILL. Mr. Secretary, you are seeking $8.5 million. Is that your request?

Mr. KELLOGG. No, sir

Mr BEVILL. $8,500,000?

Mr. KELLOGG. $8,800,000.

Mr. BEVILL. For 1974?

Mr. KELLOGG. That is correct, sir.

Mr. BEVILL. And you had $8,500,000 last year, but you also had from the Presidential funds some $4 million. You are really spending this fiscal year $12,500,000.

Mr. KELLOGG. Yes, sir.

Mr. BEVILL. Actually you are going to reduce your expenditure under this plan by 30 percent, or $4,300,000.

PRESIDENTIAL DETERMINATION ORDER

Mr. KELLOGG. The exact reduction, Mr. Congressman, is $3.7 million, but may I add this. In the refugee business, we go from one emergency to another, and it is impossible to forecast what may happen. That is the reason why Congress, in its wisdom, created the Presidential determination order apparatus, so that we can deal with those emergencies if and when they arise.

Mr. BEVILL. You have anticipated my next question. Of course, in making this request you are considering the fact that you have these emergency funds to call upon that the President really controls.

Mr. KELLOGG. Yes, sir; that is correct. From this particular point in time, the $8,800,000 is what we can see and anticipate as the need for the programs for which we are here this morning.

Mr. SHRIVER. Will you yield?

Mr. BEVILL. Yes.

DEVALUATION SUPPLEMENTAL—FISCAL YEAR 1973

Mr. SHRIVER. You are also asking for a supplemental of $636,000, are you not?

Mr. KELLOGG. That is entirely correct, sir, as a result of the devaluation. We are asking for an additional $636,000.

FISCAL YEAR 1974 REQUEST

Mr. BEVILL. Actually then, discounting what you are receiving from the President's funds, you are really asking for $300,000 more, disregarding the funds that you received from the President's two funds, aren't you?

Mr. KELLOGG. That is entirely correct.

Mr. BEVILL. Then you are asking for the $6 million plus, so really you are asking for about $1 million more than you had this fiscal year, aren't you, roughly?

Mr. KELLOGG. May I correct that impression, Mr. Congressman. The $8,800,000 which we are here this morning to discuss with you is what we are asking for our programs for the year 1974. The $636,000 that we are asking as a supplemental, because of the devaluation that occurred on February 12, 1973, is for the year 1973.

OTHER COUNTRIES PARTICIPATION IN REFUGEE PROGRAMS

Mr. BEVILL. I was about to add apples and oranges there. Thank you. On these various programs that you have mentioned in your testimony,

are we getting any help from any other countries on these, like the Sudanese? Did we get any help from any other countries on this, or did the United States just take it up by itself?

Mr. KELLOGG. Could I turn that around and answer this way, Mr. Congressman. I do not believe there is any program, with two exceptions, in which the U.S. Government is participating alone. The only two programs before us this morning which are totally and completely American are the USRP (U.S. refugee program), which is our own program mostly in Europe, and the other one is FERP (Far East refugee program). All the others are multinational.

COUNTRIES PARTICIPATING IN SUDAN REFUGEE SITUATION

Mr. BEVILL. Using the Sudan situation as one there, would you have the information available—if you don't you can put it in the record—as to what other countries participated, what percentage, how much did they participate in these funds in this particular instance.

Mr. KELLOGG. I will be very glad to provide that for the record, Mr. Congressman. We do have those figures, and we were only one of a good many nations that were involved in that program.

[The information follows:]

PLEDGES OF ASSISTANCE TO SOUTHERN SUDANESE RETURNEES AND DISPLACED PERSONS THROUGH THE UN PROGRAM COORDINATED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES—STATUS AS OF MAR. 1, 1973

Donor	Amount pledged	Percent of total pledged
Austria	$4,978	0.03
Botswana	2,500	0.01
Brazil (medical supplies—value unknown)		
Canada	510,204	2.97
Denmark	502,181	2.92
Finland	241,897	1.41
France	215,054	1.25
Germany, Federal Republic	771,698	4.49
Hellenic Red Cross	3,333	0.02
Iran	3,000	0.02
Japan	20,000	0.12
Lebanon	2,046	0.01
Liberia	5,000	0.03
Libyan Arab Republic	303,951	1.77
Nepal	500	
Netherlands [1]	192,245	1.12
Norway	251,153	1.46
Pakistan	6,545	0.04
Private donors	664	
Sterling Airways, Denmark	515,988	3.00
Sweden	1,477,263	8.60
Switzerland	113,235	0.66
Togo	800	
Tunisia	2,000	0.01
Turkey	857	
United Kingdom	1,173,708	6.83
UNHCR (emergency fund)	300,000	1.75
UNHCR (regular program)	530,450	3.09
United States of America:		
Food for Peace	7,560,000	
Cash donations	2,475,000	
Subtotal	10,035,000	58.39
Total	17,186,250	100.00

[1] The Netherlands Government also pledged an amount of 2,000,000 guilders (now equivalent to about $590,000) toward the construction of a bridge at Juba.

Note: Pledges of assistance made directly to the Government of Sudan and not through the U.N. program have reached an estimated total of about $10,000,000.

Mr. BEVILL. That is all I have.
Mr. PASSMAN. Mr. Miller?
Mr. MILLER. No questions at this time.
Mr. PASSMAN. Mr. Yates?

DEFINITION OF "REFUGEE"

Mr. YATES. As a new member of the committee, I am not entirely sure as to what is meant by the word "refugee" in your context. Can you tell me what a refugee is?

Mr. KELLOGG. Yes, sir; the definition for "refugee" which is used in my office is approximately parallel to that used by the United Nations High Commissioner for Refugees. Basically a refugee is someone who has had to flee his own country into a country of asylum. In other words, he has crossed a border, and he fears to return for fear of persecution—freedom, religion, communism, and so forth, those reasons.

FAR EAST REFUGEE PROGRAM

Mr. YATES. In your justification on page 8 you refer to the Far East refugee program. You say that the objectives of the FERP, "Are to demonstrate the continuing friendship of the American people for the Chinese people." Is this in contrast to the Chinese Government?

Mr. KELLOGG. I would say very definitely yes, sir. The justification for FERP—which is small in terms of dollars, only $500,000—is that it is the only expression that exists that helps Chinese refugees who are escaping oppression (like the famous freedom swimmers who cross at the risk of their lives and many of whom are lost) to seek the freedom that they can find in Hong Kong and Macao.

Mr. YATES. Has this been the subject of any discussions between the White House and the Peoples Republic of China, under the new détente?

Mr. KELLOGG. I can't answer that positively. Obviously I wasn't a party to those discussions. I would think not. It is a program that has been in existence some time. It is very small. The main purpose of it is to show that the U.S. Government is not only helping escapees from communism in Europe, but also worldwide.

Mr. YATES. Are there any escapees from Taiwan who qualify for this program?

Mr. KELLOGG. No, sir.

Mr. YATES. I notice also on that page you said that the refugees were double the number of those who fled to Hong Kong in 1970. The number who fled to Hong Kong in 1970 is not given.

Mr. KELLOGG. Mr. Congressman, I can supply the exact figures. When I say exact, the estimated influx of refugees into Hong Kong. The number in 1970 was estimated at 7,500; in 1971 it was 13,500, and the estimated number for 1972 is in the area of 14,500.

Mr. YATES. That is all, Mr. Chairman.

Mr. PASSMAN. Mr. Coughlin.

RESETTLEMENT OF SOVIET JEWS

Mr. COUGHLIN. Thank you, Mr. Chairman.

I have just one question. On page 3 of your testimony you indicate

that Congress provided $50 million in fiscal year 1973 for resettlement of Soviet Jews in Israel. Where does that show in your other figures?

Mr. PASSMAN. That is in addition.

Mr. KELLOGG. It does not show on the blue sheet that probably you have in front of you. Yes, I see you do. It is not on that sheet at all. My fiscal officer will correct me if I am wrong, but I believe the reason is because this is something which Congress passed, and which we have only recently received since this particular budget was drawn up. It is not a request that we initiated, but rather a sum of money that was voted by Congress, and funds appropriated to the President.

Mr. COUGHLIN. Thank you. That is all.

DOLLAR DEVALUATION

Mr. PASSMAN. Thank you, Mr. Coughlin. I think this is your third year to appear before this committee, Mr. Kellogg.

Mr. KELLOGG. That is correct, Mr. Chairman.

Mr. PASSMAN. We have always been very considerate of your request, but I am not too sure but that we haven't reached the point where it is going to be necessary to tighten up on this program, because we are spending money we don't have for things we don't need, trying to be everything to everybody everywhere on borrowed money. We are beginning to feel the result today, because I notice you are requesting $636,000 to offset the devaluation of the dollar; is that correct?

Mr. KELLOGG. That is correct, Mr. Chairman.

EUROPEAN ORIENTED REFUGEE PROGRAMS

Mr. PASSMAN. I read an article in the morning paper which didn't please me very much. Practically every European nation is now running from the dollar rather than trying to acquire dollars. They are trying to convert their dollars into some other currency. Isn't that statement a fact?

Mr. KELLOGG. It is a fact, yes, sir.

Mr. PASSMAAN. This program is mainly a European refugee progam; is it not?

Mr. KELLOGG. No, Mr. Chairman.

Mr. PASSMAN. It takes on that name at certain places, does it not, the European refugee program?

Mr. KELLOGG. But that is only one program out of a number of programs.

TOTAL REFUGEE PROGRAM

Mr. PASSMAN. But this is the largest part of it, is it not? You have a breakdown on page 1. It is all spelled out there. For instance for the Intergovernmental Committee for European Migration you are requesting $3,250,000. For the U.N. High Commissioner for Refugee, you are requesting $1.1 million. For the U.S. refugee program you are requesting $2.4 million. All of this is set forth on page 1, and that is far from being the total story. Don't you think possibly it should be made clear in the record the total amount? Certainly I recommended, and I think this subcommittee was unanimous in recommending $50 million for the relocation of Jews from the U.S.S.R. It is a refugee program is it not?

Mr. KELLOGG. Oh, yes, sir.

Mr. PASSMAN. So actually the request that we approved last year specifically to your agency is a very small part of the total amount that will be spent on refugees, is that true? Did you make it all inclusive and include the $50 million for Soviet Jews, which is a direct refugee program?

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

Mr. KELLOGG. Mr. Chairman, I think I have in front of me now three separate questions. The first is whether our programs are European oriented. Then you cited our first three programs. If I may, sir, I would like to say that in the case of Intergovernmental Committee for European Migration, the title is somewhat misleading because the word "European" does not limit this organization to operate only in Europe. For example, it was the major transporter of refugees from Africa, from Uganda specifically. Similarly the United Nations High Commissioner for Refugees is not European oriented.

Mr. PASSMAN. No; that particular one is not.

U.S. REFUGEE PROGRAM

Mr. KELLOGG. It is largely African. The U.S. refugee program, which is our own, is similarly not limited to Europe, but operates elsewhere throughout the globe.

SOVIET JEW REFUGEES

Finally, sir, with respect to the $50 million for Soviet Jews, that money is under my jurisdiction; it is a refugee program, and I am prepared to talk about it at length this morning if you wish.

Mr. PASSMAN. We do have questions later. That is a bilateral program.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Of course, the others are all multilateral programs.

Mr. KELLOGG. Yes, sir.

COUNTRIES CONTRIBUTIONS TO REFUGEE PROGRAMS

Mr. PASSMAN. Would you place in the record at this point a list showing our contribution and the contribution by all other nations for each one of the programs we are discussing this morning?

Mr. KELLOGG. Yes, sir.

[The information follows:]

1972 CONTRIBUTIONS

	U.S. contribution	All other government contributions
ICEM	$3,150,000	$9,872,398
UNHCR	1,000,000	4,977,514
ICRC	50,000	2,548,108
Ugandan Asians	1,500,000	[1] 1,923,820
Sudan	10,035,000	7,151,250

[1] This does not include direct maintenance and resettlement costs incurred by nations who accepted many of these refugees for permanent residence.

PROPOSED CONSOLIDATION OF REFUGEE PROGRAMS

Mr. PASSMAN. Until about 3 years ago most of your refugees came out of the European countries, did they not?

Mr. KELLOGG. They did, yes, sir.

Mr. PASSMAN. That is really where it got its name, the European refugee program. We gave some thought last year to consolidating several of these programs. After discussing it with the people in Geneva, they thought it would be unwise to try to consolidate some of these programs. What do you think about it?

Mr. KELLOGG. I have given that a great deal of thought, Mr. Chairman, in the 3 years that I have been here in Washington. We have considered it with great care. We have concluded in my office, just as they did in Geneva, that increased efficiency and savings could not be achieved through this means.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. What percentage of the total appropriation goes for administrative expenses?

Mr. KELLOGG. In which program?

Mr. PASSMAN. All of them.

Mr. KELLOGG. Our administrative expenses are 13½ percent of the total request, Mr. Chairman.

CUBAN REFUGEE PROGRAM

Mr. PASSMAN. We have another refugee program. That is the Cuban refugee program, is that true?

Mr. KELLOGG. That is correct.

Mr. PASSMAN. What does that amount to? What is the request for fiscal 1974, do you know?

Mr. CAREY. $90 million.

TOTAL REFUGEE PROGRAM

Mr. PASSMAN. Really the total refugee program is around $150 million, isn't it, if you put all pieces together?

Mr. KELLOGG. Yes, Mr. Chairman, that is correct.

EFFECT OF DOLLAR DEVALUATION

Mr. PASSMAN. That is quite different than what we see on the surface. I want the record to show that we are heavily involved in refugee programs. I wonder, Mr. Kellogg, if the dollar devaluation will have the same effect on all the other programs.

Mr. KELLOGG. I don't believe it will, Mr. Chairman, because the dollar devaluation affects only overseas programs. The Cuban refugee program is in this program, is in this country, and therefore should not be affected.

PRESIDENTIAL DETERMINATION FUNDS

Mr. PASSMAN. Again you have transferred into the program funds totalling $4 million in fiscal 1973 which were added to the amounts

appropriated for this item. Would you explain where these additional amounts were allocated, and why the additional amounts were actually needed?

SUDAN REFUGEES

Mr. KELLOGG. $2.5 million was spent in the Sudan to help resettle returning refugees who had been forced out of that country by the 17-year civil war.

Mr. PASSMAN. Forced out of the Sudan?

Mr. KELLOGG. Forced out of their homes, some of them in the bush.

Mr. PASSMAN. In Sudan?

Mr. KELLOGG. Others across the border into neighboring countries.

Mr. PASSMAN. Out of the Sudan?

Mr. KELLOGG. Yes, sir.

DOMESTIC VERSUS FOREIGN PROJECTS

Mr. PASSMAN. You know that is strange. I certainly don't want to be too critical, but some of us have to do a little explaining back home. I am not going to direct any criticism at the President, because I think he is a great President. I know he has done a commendable job, but if we look at the operation of some of these domestic programs we become a little irritated. In a little town of Vidalia, La., the people had an Economic Development Administration grant approved of $400,000. They sold bonds, and they received $310,000 for their bonds and placed it in the bank. Then these funds were impounded, so they are paying interest on the bonds and the $400,000 was not forthcoming. I was able to help on that situation but I go over to Lake Providence, La., where we have a new port. They are making great progress, far beyond what we expected when the port was opened on the Mississippi River at this small town. They needed $320,000 from EDA, which would have provided additional employment for 72 individuals. They likewise sold their bonds and put the money in the First National Bank at Lake Providence, La., but these funds were impounded.

However, I picked up a letter on my desk which came from the International Development Association last week. They approved a $42 million credit for the Sudan for an irrigation project. There was no benefit to cost ratio, they just approved $42 million.

Then we see the United States puts up 40 percent of the funds for IDA. What are the terms of these credits? Fifty years, no interest, with a 10-year grace period.

Here we are giving these people $42 million, and at the same time taking the refugees out of the Sudan, locating them at our expense somewhere else. It just doesn't make sense. We find that the domestic projects are being discontinued and funds are being impounded but all the foreign aid projects are going full steam ahead. Projects in my district are being closed down. It doesn't make sense to me. We have to get our contracts renewed every 2 years. Yours is pretty much on a permanent basis, isn't it?

Mr. KELLOGG. Mr. Chairman, I appear before you every year, so that I would like to think it were permanent. However, I do serve at the pleasure of the President.

COST OF SUDAN REFUGEE PROGRAM

Mr. PASSMAN. What does this Sudan program cost?

Mr. KELLOGG. In the year 1973 it was $2.5 million.

Mr. PASSMAN. If I could have just gotten $1 million of that I could have had both of these projects funded. There would have been 72 people employed down in Lake Providence, La., and 112 people at the other location. Could you have gotten by on $1.5 million so I could have gotten the other $1 million?

Mr. KELLOGG. Mr. Chairman, I think I could defend the $2.5 million. It was for the benefit of the people whom you are referring to in your State of Louisiana.

Mr. PASSMAN. The benefit of the people in the State of Louisiana?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. You mean these two projects from which they withheld funds while giving the Sudan $42 million?

PURPOSE OF REFUGEE PROGRAMS

Mr. KELLOGG. The whole point and purpose, Mr. Chairman, of any refugee program is to not only alleviate human suffering, which is something that the American people are interested in, but also it is vital toward establishing peace in the world.

Mr. PASSMAN. What kind of peace are you talking about?

Mr. KELLOGG. Every American wants to see peace throughout the world.

Mr. PASSMAN. Why sure. We haven't done such a good job, have we?

Mr. KELLOGG. And refugees are a cause of suffering, and a possible cause of war.

Mr. PASSMAN. It appears to me we have at least been involved in more wars and financed more wars since you had this program than we ever did before. You couldn't deny that fact, could you?

Mr. KELLOGG. I think perhaps there might have been more wars, if these programs hadn't been——

Mr. PASSMAN. And some of the longest wars too. I think we just got out of the longest war we ever had.

Mr. KELLOGG. I think that is correct, Mr. Chairman.

Mr. PASSMAN. Do you think it would have been longer if you hadn't had this program?

Mr. KELLOGG. The particular programs before us, sir, are not in that part of the world.

Mr. PASSMAN. I see. You are in Southeast Asia, aren't you, a part of it?

Mr. KELLOGG. We follow it very closely and we are involved from a policy point of view but we are actually not operating those programs in Southeast Asia.

PRESIDENTIAL DETERMINATION ORDERS

Mr. PASSMAN. Could you tell us the amount of money that the Agency for International Development transferred into this program in fiscal 1973?

Mr. KELLOGG. Do I understand the question——

Mr. PASSMAN. How much did they transfer out of AID into this program?

Mr. KELLOGG. The amount was $4 million, Mr. Chairman.

Mr. PASSMAN. I don't believe that the Agency for International Development justified this when they appeared before our committee last year, did they?

Mr. KELLOGG. No, they did not, Mr. Chairman.

Mr. PASSMAN. They certainly had a very tight program and didn't know where they could spare a dollar from any other program. Could you tell me out of what fund this came?

Mr. KELLOGG. Yes, Mr. Chairman. They have a contingency fund. Through an act of Congress that created my office, my office is able to draw up to $10 million on an annual basis from that emergency fund.

Mr. PASSMAN. You mean if there is an emergency? You are talking about the President's emergency fund?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Some years it has been as low as $5 million.

Mr. KELLOGG. That is correct.

Mr. PASSMAN. Some years it has been as high as $100 million. If we had only given them $2 million last year you couldn't have drawn down $4 million, could you?

Mr. KELLOGG. That is correct.

NEED FOR PRESIDENTIAL DETERMINATION ORDERS

Mr. PASSMAN. Mr. Kellogg, for the past 5 years, you have found it necessary to obtain Presidential determinations to transfer funds into this account. Could you tell us why you were unable to anticipate the need for these additional funds each year?

Mr. KELLOGG. I can answer that question, Mr. Chairman. For example, it is totally imposible to anticipate that General Amin in Uganda will suddenly decide overnight (because of a dream, he said) to force the Ugandan Asians out of that country. Or similarly, who could have anticipated that in 1 year 10 million Bengalis would be forced out of East Pakistan into India. These situations were totally impossible to anticipate.

Mr. PASSMAN. What would be the position in that part of the world if we just kept our hands off and let those people straighten out some of their own affairs?

Mr. KELLOGG. In the case, for example, of the Sudan, the role that the United States played did at least three things. It alleviated the suffering of starving people who didn't have hand agricultural tools, food, or shelter. Secondly, it permitted them to come back into southern Sudan and help to keep the peace. The third thing that it did was to help reestablish diplomatic relationship between the Sudan and the United States, which had been broken off at the time of the 6-day war.

ADMINISTRATION OF REFUGEE PROGRAMS

Mr. PASSMAN. You don't administer the Sudan program, do you?

Mr. KELLOGG. I administered the refugee relief program in the Sudan.

Mr. PASSMAN. Not Southeast Asia?

Mr. KELLOGG. Not Southeast Asia, no, sir.

BUDGET ECONOMIES

Mr. PASSMAN. You do know, Mr. Kellogg, we have 4,406 projects going in 101 nations of the world, do you not?

Mr. KELLOGG. I have never made that count, no, sir.

Mr. PASSMAN. Have you referred to the record and know actually how many programs we have and how many countries we are now operating in? You must remember we are in serious trouble with our finances in this country. Even after the President impounded billions of dollars this year, we are still going to have a $28 billion deficit in fiscal year 1973. There are so many small programs that make up the total Federal budget that we are going to have to start looking a little closer at the thousands of small programs considerd by the Congress.

Mr. KELLOGG. Could I comment, Mr. Chairman.

Mr. PASSMAN. Certainly.

EFFECT OF REFUGEE PROGRAMS ON WORLD PEACE

Mr. KELLOGG. In my opinion my programs are vitally important to the United States, primarily for two reasons. One, they help establish peace throughout he world, and second, they are an expression——

Mr. PASSMAN. Really, how can you explain that, Mr. Kellogg, that these programs help establish peace throughout the world?

Mr. KELLOGG. I think a perfect example is in the southern Sudan.

Mr. PASSMAN. But aren't we supporting both sides in every instance? We are pouring money by the millions of dollars into the Sudan. I referred to only one credit under the International Development Association for $42 million to the Sudan. Various types of other aid programs are going into the Sudan, and at the same time we are appropriating other funds to help refugees in the Sudan.

Mr. KELLOGG. Mr. Chairman, the peace itself is an outgrowth of what my program was able to do. My program is helping the refugees to return to their homes in the Sudan. That is the point I am trying to make this morning.

Mr. PASSMAN. Are you saying if you had gotten in a little earlier, that this $154 billion we spent in Vietnam could have been avoided?

Mr. KELLOGG. Possibly so.

Mr. PASSMAN. By bringing about peace?

Mr. KELLOGG. Posssibly so, Mr. Chairman.

Mr. PASSMAN. Aren't you borrowing pretty heavily upon your imagination?

VOLUNTARY AGENCIES PARTICIPATION

Mr. KELLOGG. May I also say, Mr. Chairman, I think a single statistic I can give you this morning is illustrative of the tremendous interest of the American people of all creeds and colors in the work which these programs do. For example, in 1972, 90 American voluntary agencies raised, among their constituency, $430 million, which exceeded by almost double——

Mr. PASSMAN. Who raised this money? What agency are you talking about?

Mr. KELLOGG. I am talking about the voluntary agencies in the United States that are a tremendously important factor.

Mr. PASSMAN. We are financing the voluntary agencies too; aren't we?

Mr. KELLOGG. But by only half the amount that was raised from the American people, that is the interesting thing.

Mr. PASSMAN. But it is the U.S. Government's money that is really keeping life's blood in them, isn't it? You referred to a mighty big figure there but you are not going to follow through and state that the U.S. Government appropriated millions of dollars to all these agencies. I had to think about that, didn't I?

Mr. KELLOGG. Yes, sir.

TEMPORARY AGENCIES

Mr. PASSMAN. Do you know of any bad program in Government? I am trying to make a case. No government cuts off an expense capable of voting. The most permanent thing in Washington is a temporary agency. We get these agencies started and, you know as well as I do, there are a lot of plush jobs attached to them. They go to Geneva where they can have four or five servants, and they can be a little king in their own kingdom over there. There are some jobs I would much prefer to have than the one I have, if I believed in really high living. You know, I know what this is all about.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. There is just no such thing as abolishing one of these agencies, once they get started. I am not blaming you. You go to Geneva quite often, don't you?

Mr. KELLOGG. Yes, Mr. Chairman.

Mr. PASSMAN. You know something about what I am talking?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. All these agencies are domiciled right there in Geneva, aren't they?

Mr. KELLOGG. They are, sir.

POSSIBILITY OF UNFORESEEN REQUIREMENTS FOR FISCAL YEAR 1974

Mr. PASSMAN. Do you anticipate additional funds will be needed for fiscal 1974 other than what you are requesting this morning?

Mr. KELLOGG. As we sit here, Mr. Chairman, I do not, no, sir.

Mr. PASSMAN. You don't see any trouble brewing in any of these countries where we presently have big aid programs going?

Mr. KELLOGG. When I say I do not, I have to admit at the same time that no one can look into the future of what is going to happen around the world. Something could occur in one country or another very, very easily.

Mr. PASSMAN. What would happen if the committee just gave you your appropriation, making whatever adjustments it felt proper, and said this is all you get. You are going to have to operate through fiscal 1974 on this amount. You would still have a program, would you not?

Mr. KELLOGG. I would, yes, sir.

BUDGET ECONOMIES

Mr. PASSMAN. Don't you think the time has come when possibly we are going to have to tighten upon all these programs, not just yours but throughout the budget? We always point out the amount of money that we have cut the budget. I always say for each $1 we cut the bureaucrats come down and get $2. They get the dollar back plus another one because we caused them to go to the trouble of coming back for a supplemental. We are actually making a mockery of our processes. If we should tighten up on these programs, taking your testimony and statement with respect to your needs and go as far as we can with you and just rest our case, you would still have a program, would you not?

Mr. KELLOGG. I would, yes, sir.

FUND TRANSFER AUTHORITY

Mr. PASSMAN. Thank you very much. I believe you stated earlier that you do have the authority under the legislation to transfer $10 million in any fiscal year to this program from activities funded under the Foreign Assistance Act of 1961.

Mr. KELLOGG. That is currently correct, yes, sir.

Mr. PASSMAN. Would you object to other agencies or other spigots of the aid program operating in the same manner?

Mr. KELLOGG. Mr. Chairman, I think our programs are so realistic and so lean, if I may use that word, that I would very much object to any other agency being able to draw on our funds.

Mr. PASSMAN. That is right, but you want the right to draw on their funds.

Mr. KELLOGG. Only on AID's emergency fund which is created for that very purpose.

Mr. PASSMAN. Not for that very purpose, but for various purposes. Many times they have transferred funds out of the contingency fund into other accounts where we have made reductions and therefore offset our reductions. You are familiar with that procedure too, aren't you?

Mr. KELLOGG. Yes, sir, I am.

POSSIBLE CONSOLIDATION OF REFUGEE PROGRAMS

Mr. PASSMAN. Mr. Kellogg, in last year's hearings I asked you to give some thought to the possibility of combining the Intergovernmental Committee for European Migration program and the United States refugee program. You indicated then as you did this morning that you would give some thought to the possibility of this consolidation. Are you still giving thought to it or have you concluded that it wouldn't be wise?

Mr. KELLOGG. Mr. Chairman, I have given it thought, and I continue to do so. I have many reasons, which I won't take the time of the committee to explore, as to why I don't think that this is a workable idea.

Basically, gentlemen, the real reason why it won't work is that the two organizations are very different in their reasons for existing. ICEM is basically a transportation organization. It is designed to move refugees from one place to another. USRP is the American expression

of interest in refugees primarily in Europe, and its importance is to resettle refugees out of asylum countries so that those countries will continue to be asylum countries.

TOTAL COST OF REFUGEE PROGRAMS

Mr. PASSMAN. Your request is for $8,800,000 for migration and refugee assistance, but if we will turn to page 527 of the hearings of last year, we get the total cost of the refugee programs. It was a staggering figure of $305,965,539 for fiscal year 1971. That is why when you scatter the programs everywhere, it is almost impossible for the most astute Member of Congress to know what any of these programs is costing in total. You just come in and testify for one small part. You make a good case, but it is the responsibility of this committee to put it all together. You are familiar with this table, aren't you?

Mr. KELLOGG. I believe I am, yes, sir.

BENGALI REFUGEES

Mr. KELLOGG. Out of that $305 million at least $100 million was spent in India for the Bengali refugees.

Mr. PASSMAN. $97 million, I believe.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Of course that is true, but they are still refugees, aren't they?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. This year you are requesting $7,550,000 to be made available until December 31, 1974, which goes 6 months beyond the end of the fiscal year. This is necessary, I guess, because the organizations operate on a calendar rather than a fiscal year basis?

Mr. KELLOGG. That is correct. We contract with organizations that operate on a calendar year, yes, Mr. Chairman.

Mr. PASSMAN. East Pakistan is called Bangladesh now?

Mr. KELLOGG. Bangladesh.

Mr. PASSMAN. Has that situation been mainly resolved now?

Mr. KELLOGG. With respect to refugees and the definition that I gave earlier, the refugees, all 10 million of them, have returned to Bangladesh. Unfortunately there are approximately 75 million people living in a country the size of Louisiana, and the crop failures have been staggering. It is one of the poorest countries in the world, and there are many, many problems that still continue, Mr. Chairman, I am sorry to report.

Mr. PASSMAN. And there always will be problems there, wouldn't you think?

Mr. KELLOGG. I would think so.

Mr. PASSMAN. Is your agency directly involved in any way in the present situation in Bangladesh?

Mr. KELLOGG. No, sir, not at all.

Mr. PASSMAN. Have there been any refugee movements out of Bangladesh since the mass movement last year?

Mr. KELLOGG. Not that I am aware of, no, sir.

TEN-YEAR TABLE ON REFUGEE MOVEMENT

Mr. PASSMAN. Mr. Kellogg, would you supply a table which will show the refugee movements for the past 10 years, if it is readily available?

Mr. KELLOGG. Yes, sir.

(The information follows:)

Refugee movements—1963–72, movements by ICEM

1963	33,657
1964	37,160
1965	37,343
1966	30,452
1967	35,410
1968	51,070
1969	59,528
1970	52,357
1971	44,756
1972	62,888

In addition to the above, we estimate that over 12,000,000 refugees crossed international borders during the last 10 years. Some examples of the movements follow:

Refugees from Cuba	600,000
Refugees from East Pakistan	9,085,000
Refugees from Peoples Republic of China	161,000
Ugandan Asians expelled from Uganda	45,000
Refugees from 1 African country to another African country	1,500,000

MOVEMENT OF REFUGEES

Mr. PASSMAN. I believe you have some instances where refugees leave country A and go to country B, and later they leave country B and return to country A, do you not?

Mr. KELLOGG. This happens very frequently; yes, sir.

Mr. PASSMAN. So they really go on a hayride or take a little vacation to see whether the grass is a little greener on the other side.

Mr. KELLOGG. I would hardly think so, Mr. Chairman.

Mr. PASSMAN. But they did go from country A to country B, then return from country B to country A, as returning refugees?

Mr. KELLOGG. My experience is that the reason they left was because of outbreak of war, or fear or persecution, or fear of death.

Mr. PASSMAN. But most of the refugees do return to their home country, do they not?

Mr. KELLOGG. I would think the only reason for the return is because of a very decided change in the political atmosphere.

Mr. PASSMAN. But they do return. I made a statement of fact, did I not?

Mr. KELLOGG. They do return; yes, sir.

U.S. ASSISTANCE TO REFUGEES

Mr. PASSMAN. Mr. Kellogg, would you place in the record a table similar to the one which appeared on page 527 of last year's hearings, showing the total U.S. assistance to refugees for fiscal 1972 under the various programs?

Mr. KELLOGG. I will.

[The information follows:]

U.S. ASSISTANCE TO REFUGEES FOR FISCAL YEAR 1972

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	$4,694,300		[2] $4,694,300
Chinese refugees in Hong Kong and Macao	State	do	[2] 500,000	$160,000	660,000
Refugee students from southern African countries in the United States	do	State	375,530		375,530
Refugee students from southern Africa in other African countries	AID	Foreign assistance	180,000		180,000
Palestine Arab refugees	U N Relief and Works Agency for Palestine refugees in the Near East (UNRWA)—State/AID	do	[3] 23,200,000	1,175,625	24,375,625
Various categories of refugees worldwide	United Nations High Commissioner for Refugees (UNHCR)—State	do	1,050,000		[2] 1,050,000
Refugees moved from Europe, the Near East and other areas	Intergovernmental Committee for European Migration (ICEM)—State	do	[4] 3,150,000		[2] 3,150,000
Vietnamese refugees displaced within South Vietnam	AID	do	53,905,100	6,094,900	60,000,000
Laotian refugees displaced within Laos	do	do	13,290,100	3,709,900	17,000,000
Cuban refugees in the United States	HEW	do	138,990,000		138,990,000
Various sub-Sahara African groups	AID	Agriculture		2,685,800	2,685,800
Refugee nationals in Indonesia	do	do		221,900	221,900
Sudanese refugees returning to the Sudan	do	Foreign assistance	475,000		475,000
Refugees in Nepal from surrounding countries	do	do		587,000	587,000
East Bengal refugees in India	State/AID	do		3,486,000	3,486,000
Burundi refugees in surrounding countries	State	do	75,000		75,000
Selected Refugees in the United States	do	do	1,788,235		1,788,235
Total			241,673,265	18,121,125	259,794,390

[1] At commodity Credit Corporation costs and includes transportation.
[2] Includes obligations incurred in calendar year 1972.
[3] Includes $8,900,000 in Public Law 480 commodities at world prices.
[4] Includes national migrants to Latin America.

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

Mr. PASSMAN. The Intergovernmental Committee for European Migration, ICEM, is the first program for which the fiscal 1974 request is $3,250,000. Your request is $57,000 less than the program level for fiscal 1973, isn't that true?

Mr. KELLOGG. $57,000, sir.

PRESIDENTIAL DETERMINATION ORDER—1973

Mr. PASSMAN. The additional funds transferred from AID to the general refugee program, could you give us a breakdown under each heading where the allocation was made?

Mr. KELLOGG. For the year 1973?

Mr. PASSMAN. 1973.

Mr. KELLOGG. Yes, sir.

[The information follows:]

TRANSFERS OF FUNDS FROM AID

	Sudan	Ugandan Asians	Total
Intergovernmental committee for European migration		[1] $270,000	$270,000
United Nations High Commission for Refugees	$2,225,000	[2] 500,000	2,725,000
United States refugee program (voluntary agencies)	275,000	730,000	1,005,000
Total	2,500,000	1,500,000	4,000,000

[1] ICEM loan fund.
[2] Special contribution to the UNHCR for expenses incurred by ICEM and UNHCR. ICEM will receive a share from the UNHCR.

REFUGEE MOVEMENTS HANDLED BY ICEM

Mr. PASSMAN. What is the estimate of the number of refugee movements to be handled by ICEM this year and how does it compare to last year?

Mr. KELLOGG. The estimated movement in 1974, Mr. Chairman, is 53,300 refugee movements as compared to an estimate of 57,700 in 1973.

JEWISH REFUGEES FROM SOVIET UNION

Mr. PASSMAN. Would you please indicate the number of refugee movements that are Jewish?

Mr. KELLOGG. Yes, sir. Would you like me to supply that for the record or now? It is 30,000 from the Soviet Union to Israel, Mr. Chairman.

Mr. PASSMAN. How much have you expended out of the fund on this 30,000?

Mr. KELLOGG. Out of the $50 million, Mr. Chairman?

Mr. PASSMAN. Yes.

Mr. KELLOGG. We have just negotiated the contract for part of the $50 million within the last 2 weeks. The actual signing of the contract will take place this coming Friday.

[Discussion off the record.]

Mr. SHRIVER. Would you yield?

Mr. PASSMAN. Yes.

Mr. SHRIVER. Who was in on the negotiations?

Mr. KELLOGG. My office, my fiscal officers, and Mr. Gottlieb Hammer of UIA, United Israel Appeal. Mr. Max Fisher, chairman of the board of governors, Jewish Agency for Israel, also was following it on an almost day-to-day basis.

Mr. SHRIVER. Are you dealing with the Government of Israel?

Mr. KELLOGG. No, sir. We are dealing with the voluntary agencies which is our usual and customary procedure.

Mr. SHRIVER. Just one agency?

Mr. KELLOGG. In the main, one, UIA.

UNITED ISRAEL APPEAL—VOLUNTARY AGENCY

Mr. SHRIVER. Put more in the record about this agency with which you have negotiated a contract that could eventually involve $50 million.

Mr. KELLOGG. I will be glad to do so.

[The information follows:]

UNITED ISRAEL APPEAL

(Formerly the Jewish Agency for Israel)

The United Israel Appeal is an American voluntary agency which was incorporated on February 21, 1949, in the State of New York. It was registered with the Advisory Committee on Voluntary Foreign Air in March 1962. It received Internal Revenue Service authorization for income tax deduction purposes on September 30, 1966.

The UIA is governed by a board of directors of 27 and by a board of trustees of 200. The latter are designated in part by American Zionist groups in part and by a nominating committee working in consultation with Federation or Welfare funds in various U.S. cities, The current chairman of the board of directors is Melvin Dubinsky. Max M. Fisher, a board member, is chairman of the finance committee.

The UIA is the principal beneficiary of the United Jewish Appeal, an organization which raises funds in the United States for Jewish welfare programs. In turn, the UIA supports the programs of the Jewish Agency for Israel. These programs provide maintenance, transportation and absorption assistance for immigrants to Israel.

REFUGE MOVEMENTS THROUGH VOLUNTARY AGENCIES

Mr. PASSMAN. Why do you have to move through these voluntary agencies? I am not being critical of it but I think we should have some explanation as to why we have always got to handle this through some voluntary agency.

Mr. KELLOGG. In my opinion, there are several reasons for that, one being they are efficient. They work in the field. They can work in a way that bureaucracies cannot. They are person-to-person organizations, which governments normally are not. However, I could say in the case of Israel, I understand that the voluntary agencies work very closely with the Government.

Mr. PASSMAN. This is just another layer of bureaucracies, just more expense involved in handling funds through them, is that not true?

Mr. KELLOGG. I would think quite the reverse.

Mr. PASSMAN. How could you say quite the reverse when the United States has to furnish them the money with which they do this work, do we not?

JEWISH VOLUNTARY AGENCIES

Mr. KELLOGG. In the case of the Jewish voluntary agencies, they do one of the most extraordinary jobs of raising money worldwide that exists. They raise something in the area of $600 million annually.

COST PER SOVIET JEW FOR RELOCATION

Mr. PASSMAN. There is no question about that. What is it costing per Soviet Jew to relocate them?

Mr. KELLOGG. Roughly $1,500, Mr. Chairman.

Mr. PASSMAN. Out of 30,000 Soviet Jews that have come out during the year, what percentage of them are going to Israel?

Mr. KELLOGG. Almost the entire 30,000 are going to Israel.

JEWISH REFUGEES IN ISRAEL

Mr. PASSMAN. Let me just state for the record that I supported this program. I have been to Israel many times. They are doing a great job. They are building an industrial complex there that should be a good example for people everywhere in that part of the world. When I traveled from Tel Aviv to Jerusalem and saw those bare rock hills that I observed some 25 years ago and now they have pine forests growing on them, it is almost unbelievable. After all, that country can absorb just a certain number of people, and that is all. Aren't they going to have problems if this continues?

Mr. KELLOGG. That is part of the reason I think Mr. Chairman, that Congress voted the $50 million.

Mr. PASSMAN. You miss the point altogether. We voted the $50 million, of course, to help move these Jews out of Russia and relocate them. You said they were all going to Israel. They can only absorb a certain number of them. There won't be standing room if this continues indefinitely, will there?

Mr. KELLOGG. It is my understanding, Mr. Chairman, that with a certain amount of language training, that they are being absorbed in a very remarkable way, and are contributing to the economy of that country.

Mr. PASSMAN. But there is a saturation point. I want to help them and I will continue helping them, and I feel the committee feels the same way, but on the other hand, the land area is small. Are there about 3.5 million people in Israel?

Mr. KELLOGG. I believe so, yes, sir.

Mr. PASSMAN. There is a limit to how many people they can absorb in the country and the economy, is that true?

SOVIET EXIT FEES

Mr. KELLOGG. Right, sir.

Mr. PASSMAN. I wouldn't want to be placed in the position of defending the acts of the Soviet Union in any way, shape, form or fashion. With the tremendous charges they assess for the Jewish people to leave, do you have any information on why they want to assess such large amounts for each person leaving? Did they ever give any explanation as to why they take this position?

Mr. KELLOGG. There is no official explanation, none at all.

Mr. PASSMAN. Unofficial?

Mr. KELLOGG. Unofficially there are many theories, but nobody really knows, other than the U.S.S.R. top officials.

Mr. PASSMAN. Are the funds to handle this increased movement from the Soviet Union already included in the ICEM budget as presented this year?

Mr. KELLOGG. No, they are not, sir.

STATISTICS RELATING TO ICEM PROGRAM

Mr. PASSMAN. Mr. Kellogg, please place in the record a table showing the number of refugees handled by ICEM for the past 5 years. Also show what the total budget has been for ICEM for the same 5 years. Place a list in the record showing the 31 member governments, the amount each contributes to ICEM, and indicate what percentage each represents of the grand total.

Mr. KELLOGG. I will do so.

[The information follows:]

ICEM REFUGEE MOVEMENTS AND TOTAL BUDGETS 1968-72

Year	Refugee movements	Total budget
1968	51,070	$22,492,191
1969	59,528	25,582,451
1970	52,357	24,146,596
1971	44,397	20,563,700
1972	62,888	20,345,290

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION: GOVERNMENTAL CONTRIBUTIONS TO THE ICEM BUDGETS—1972

Country	Total	Percentage
Argentina	$104,848	0.81
Australia	4,170,886	32.03
Austria	56,331	.43
Belgium	194,583	1.49
Bolivia	4,553	.04
Brazil	150,001	1.15
Chile	30,876	.24
Colombia	39,596	.30
Costa Rica	7,153	.05
Denmark	47,138	.36
Dominican Republic	4,553	.04
Ecuador	24,125	.18
El Salvador	4,553	.03
Germany	753,056	5.78
Greece	246,311	1.89
Honduras	4,553	.04
Israel	1,111,807	8.54
Italy	550,360	4.23
Luxembourg	10,105	.08
Malta	236,882	1.82
Netherlands	505,863	3.88
Nicaragua	4,553	.04
Norway	26,782	.20
Panama	4,653	.04
Paraguay	4,553	.04
Peru	9,374	.07
South Africa	1,031,583	7.92
Spain	296,669	2.28
Switzerland	176,215	1.35
United States	3,150,000	24.19
Uruguay	7,331	.06
New Zealand[1]	50,552	.39
Vatican[1]	2,000	.01
Total	13,022,398	100.00

[1] Not ICEM member in 1972.

MAIN FUNCTION OF ICEM

Mr. PASSMAN. Will you also please list for the record the main functions of ICEM and particularly indicate why it is necessary for the United States to participate in ICEM?

Mr. KELLOGG. I will do that, Mr. Chairman.

[The information follows:]

The main functions of ICEM are to promote the movement of refugees and migrants from Europe and assist in their expeditious resettlement abroad. ICEM thereby helps keep the doors of asylum open for refugees, while broadening the scope of economic, social, and human opportunity for migrants and refugees. It is in the interest of the United States to participate in ICEM because ICEM has demonstrated its unique ability to move rapidly in solving, through migration, human problems ranging from those of the individual to the masses of refugees generated in periods of political crises. ICEM is an indispensable part of the collective international refugee assistance mechanism. In preventing large accumulations of refugees by prompt movement and resettlement abroad, ICEMM contributes greatly to the continuation of liberal and humane asylum practices, and also to the reduction of tensions and to the stability of the countries concerned. Through its movement of refugees and other migrants, it helps broaden the scope of economic, social, and human opportunity and development in countries of immigration.

PERCENT OF AMERICANS ON ICEM STAFF

Mr. PASSMAN. Would you please place in the record what percentage of the staff are Americans?

Mr. KELLOGG. Yes, sir.

[The information follows:]

Of the ICEM staff, 4.3 percent are Americans.

ADMINISTRATIVE BUDGET FOR ICEM

Mr. PASSMAN. Provide for the record a copy of the administrative budget for ICEM for the last full year, either fiscal or calendar.

[The information follows:]

ICEM administrative budget—Calendar year 1972

Conference costs	$60,600
Staff costs	2,483,100
Other administrative costs:	
Travel	50,000
Communications	54,000
General office costs	191,000
Contractual services	63,350
Maintenance of vehicles	3,950
Post allowances and representation costs	24,600
Subtotal	386,900
Total	2,930,600

PERCENT OF ICEM BUDGET DEVOTED TO ADMINISTRATION

Mr. PASSMAN. Mr. Kellogg, could you tell the committee what percentage this administrative budget represents of the total budget of ICEM?

Mr. KELLOGG. Mr. Chairman, the administrative program for ICEM is $3,126,000 in 1973, estimated out of a total program of $21,951,000, or 14 percent.

AMERICAN PERSONNEL IN ICEM DOMICILED IN GENEVA

Mr. PASSMAN. In this particular program, the American personnel are domiciled in Geneva where most of the top officials are, is that correct?

Mr. KELLOGG. It is correct; yes, sir.

Mr. PASSMAN. Do they pay U.S. income taxes?

Mr. KELLOGG. Until a certain number of years have passed, Mr. Chairman, they pay——

Mr. CAREY. They pay the first couple of years.

Mr. PASSMAN. After their probation period, you know what I am talking about, which is 24 months, then they do not have to pay any income tax.

Mr. CAREY. That is right.

Mr. PASSMAN. Neither do they pay income tax in Geneva, do they?

Mr. CAREY. That it right.

Mr. PASSMAN. Do they have any jobs open?

U.S. INCOME TAX—ICEM AMERICAN PERSONNEL

Mr. ROYBAL. Will you yield, Mr. Chairman? On that particular point will you supply for the record the number of months that they are overseas before they are exempt from paying income tax? It is not, I believe, a matter of years. It is a matter of months. I believe 18 months is the correct number. Will you supply that for the record?

Mr. KELLOGG. We will.

Mr. ROYBALL. I don't want this to appear that they must be away from the United States for a number of years. It is a number of months.

[The information follows:]

Title 26—United States Code 911(a)2 provides "presence in foreign country for 17 months. In the case of an individual citizen of the United States who during any period of 18 consecutive months is present in a foreign country or countries during at least 510 full days in such period, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) which constitute earned income attributable to services performed during such 18-month period. The amount excluded under this paragraph for any taxable year shall be computed by applying the special rules contained in subsection (c)."

Employees attached to international organizations are generally guaranteed a fixed income with the provision that the employer is responsible for reimbursement of income taxes. Therefore the employee receives the same net income in the first year of employment as in subsequent years. U.S. employees who qualify under the 18-consecutive-month provision are subject to income taxes on salaries in excess of $20,000. The international organization usually guarantees the employee a fixed net income.

JOHN F. KENNEDY SPASTIC CENTER

Mr. PASSMAN. We are not directing any criticism at your administration, Mr. Kellogg, but I do know not too long after the assassination of President Kennedy, we thought we wanted to do something for the people in the Far East, and we built the John F. Kennedy Spastic Center. After making the recommendation that we would build this hospital, the then Consul General there agreed with the British authorities that we would call it the Kennedy Spastic Center.

I was happy to be out there at the time, and I found out that you had the Kennedy Boulevard, the Kennedy Street, the Kennedy Museum, the Kennedy Library, the Kennedy statue, and all this was built around a former Governor of the British Crown Colony by the name of Kennedy.

I said this will not work. It will be the John F. Kennedy Spastic Center or there won't be any. This was a donation or contribution by the American taxpayer. We won that battle.

It is actually a beautiful hospital to take care of these poor little spastic and polio children. We made sure that it was known that the building was named after our late President John F. Kennedy.

FAR EAST REFUGEE PROGRAM

After making the allocation, we found they had money left to build two other hospitals out there and did not say anything to us about it. Is the program still that loose?

Mr. KELLOGG. I do not believe it is.

Mr. PASSMAN. You are familiar with what I am talking about, are you not?

Mr. KELLOGG. I have heard something about it. It was before my time.

Mr. PASSMAN. I am not directing the criticism at you.

[Off the record.]

Mr. PASSMAN. The program is a little tighter today, is it?

Mr. KELLOGG. Very much so.

Mr. PASSMAN. As you know, Mr. Kellogg, you could spend 2 weeks on this one program asking, I would say, legitimate questions. The committee is familiar with your work. We feel it should be tightened up, especially the European program. Those people are waxing fat with wealth. Certainly, they could finance every penny of this program and never miss it.

We were told during our trip there that we just wanted to keep our name before the people and let them know that we were participating in the refuge program. Is that not a statement of fact with respect to this one program? They are financially able to finance it in its entirety if need be.

Mr. KELLOGG. That may be so, as far as——

Mr. PASSMAN. I am talking about the $3,250,000 for ICEM, the one appropriation. It is mainly just to keep America before these people. Is that not the fact?

Mr. KELLOGG. The American people have always stood for freedom of movement. As Thomas Jefferson called it, the blessings of freedom.

Mr. PASSMAN. I would never be guilty of putting words in your mouth. You have used different words to say, yes, you are absolutely correct. Isn't that right?

Mr. KELLOGG. Yes, sir.

TOTAL AVAILABILITY OF FUNDS

Mr. PASSMAN. Would you please update the table appearing on page 532 of last year's hearings which showed the original budget requested, the additional amounts transferred into the account, and indicate the grand total?

Mr. KELLOGG. Yes, sir.

[The information follows:]

10-YEAR TABLE ON AVAILABILITY OF FUNDS

[In thousands of dollars]

	Original budget request (including supplementals)	Available regular appropriation	Available Presidential determination	Total
1964	$10,683	$10,550	----------	$10,550
1965	8,200	8,200	----------	8,200
1966	7,946	7,946	$271	8,217
1967	6,050	6,050	----------	6,050
1968	5,660	5,500	125	5,625
1969	5,511	5,511	5,019	10,530
1970	5,580	5,580	3,573	9,153
1971	5,844	5,706	12,866	18,609
1972	9,031	9,031	8,850	17,881
1973	8,644	8,500	4,000	12,500

OPERATION ON CALENDAR YEAR

Mr. PASSMAN. Would you please indicate which items operate on a calendar year basis and indicate the sums for each item which make up this $7,550,000 amount?

Mr. KELLOGG. The following programs operate on a calendar year basis.

Intergovernmental Committee for European Migration	$3,250,000
United Nations High Commissioner for Refugees	1,100,000
U.S. refugee program	2,400,000
Far East refugee program	500,000
African refugees	300,000
Total	7,550,000

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

Mr. PASSMAN. What does the U.S. contribution represent as a percentage of the total contributions received by ICEM?

Mr. KELLOGG. Our contribution represented 24 percent in 1972.

ICEM STAFF

Mr. PASSMAN. What is the size of the present staff of ICEM?

Mr. KELLOGG. ICEM has a staff of 513 employees.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. How does the percentage of administrative expenses of the total budget of ICEM compare to other comparable Government agencies?

Mr. KELLOGG. In 1972, ICEM's administrative budget was 14 percent of its total budget. This is 4 percentage points higher than UNHCR's administrative costs, which are computed at an annual rate of 10 percent.

PROGRAMS FINANCED

Mr. PASSMAN. Could you please tell the committee exactly what programs the U.S. contribution finances in ICEM?

Mr. KELLOGG. In addition to the administrative budget, the United States contributes to ICEM's refugee program and its Latin American program. It does not contribute to the national migration program.

MAIN BENEFICIARIES OF ICEM

Mr. PASSMAN. Could you please tell the committee which countries are receiving the main benefits from the efforts of ICEM? What I

mean by this question is a country receiving skilled labor from refugees entering that particular country.

Mr. KELLOGG. ICEM recruits skilled workers for its selective migration program. These workers are migrants, not refugees. The selective migation program operates for Latin American countries, and the leading beneficiaries are Argentina and Brazil.

In 1972, the largest recipients of refugees resettled through ICEM were Israel, the United States, and Australia.

Mr. PASSMAN. Could you also tell the committee that of these countries receiving the main benefits of this refugee movement, how much they are in fact contributing to ICEM?

Mr. KELLOGG. The 1972 contributions of the aforementioned countries to ICEM were: Argentina, $104,848; Brazil, $150,001; Israel, $1,111,807; United States, $3,150,000; and Australia, $4,170,886.

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES

Mr. PASSMAN. The next program is the United Nations High Commissioner for Refugees (UNHCR). The fiscal year 1974 estimate is for $1,100,000, which is $100,000 above the fiscal year 1973 program. Explain briefly the duties of the UNHCR.

Mr. KELLOGG. The Office of the UNHCR was established in 1951 by the U.N. General Assembly for the purpose of securing international legal and political protection for refugees. That is the legal and political protection to assure that the repatriation of refugees is voluntary, and that they are given effective asylum from persecution.

Also, to assure the rights of refugees, such as the right to work, the right of nondiscrimination as to race, religion, or country of origin, the right of free access to the courts, freedom of movement and religion and other essential rights to enable them to cease being refugees.

In 1955, the UNHCR initiated a material assistance program for which funds are contributed voluntarily by governments and other entities.

He was also given the task of promoting efforts of governments and private agencies toward permanent solutions to refugee problems.

CONTRIBUTION TO UNHCR

Mr. PASSMAN. Would you provide for the record a list of the countries that contribute to the program, the amount each contributed last year, and indicate what percentage each represents of the total?

Mr. KELLOGG. Yes, sir.

[The information follows:]

GOVERNMENTAL CONTRIBUTIONS PAID OR PLEDGED TO THE UNHCR PROGRAM FOR 1972, SITUATION AS OF DEC. 31, 1972

Country	Amount	Percentage
Algeria	$7,824	0.13
Argentina	20,000	.33
Australia	208,390	3.49
Austria	31,645	.53
Bahamas	3,075	.05
Barbados	519	.01
Belgium	200,636	3.35
Botswana	888	.01
Brazil	3,000	.05
Burundi	1,714	.03
Canada	400,000	6.69
Chile	10,000	.17
Colombia	5,000	.08
Congo	1,000	.02
Cyprus	653	.01
Denmark	400,000	6.69
Dubai	3,000	.05
Ecuador	2,000	.03
Egypt	6,900	.11
Federal Republic of Germany	628,931	10.52
Finland	100,000	1.67
France	486,770	8.14
Gabon	3,185	.05
Ghana	4,615	.08
Greece	14,000	.23
Holy See	2,500	.04
Iceland	6,318	.11
India	13,738	.23
Indonesia	1,000	.02
Iran	10,000	.17
Ireland	17,500	.29
Israel	7,500	.13
Italy	50,000	.84
Ivory Coast	2,976	.05
Jamaica	648	.01
Japan	50,000	.84
Kuwait	3,000	.05
Lebanon	2,000	.03
Liberia	5,000	.08
Libya	5,000	.08
Liechtenstein	6,510	.11
Luxembourg	4,545	.08
Madagascar	992	.02
Malawi	390	.01
Malaysia	1,500	.03
Malta	1,000	.02
Mauritius	1,047	.02
Mexico	10,000	.17
Monaco	200	
Morocco	10,000	.17
Netherlands	234,062	3.92
New Zealand	27,901	.47
Niger	794	.01
Norway	403,437	6.75
Pakistan	1,082	.02
Panama	500	.01
Peru	1,284	.02
Philippines	1,250	.02
Qatar	5,000	.08
Saudi Arabia	8,000	.13
Senegal	4,000	.07
Sierre Leone	898	.02
Sudan	8,616	.14
Sweden	750,000	12.55
Switzerland	260,417	4.36
Togo	1,984	.03
Trinidad and Tobago	1,708	.03
Tunisia	2,500	.04
Turkey	5,357	.09
Uganda	5,000	.08
United Kingdom	469,974	7.86
United Republic of Tansania	3,641	.06
United States of America	1,000,000	16.73
Uruguay	2,000	.03
Venezuela	1,000	.02
Vietnam, Republic of	1,000	.02
Yugoslavia	10,000	.17
Zaire	4,000	.07
Zambia	5,000	.08
79 countries total	5,977,514	100.00

U.S. PERCENTAGE OF TOTAL CONTRIBUTION

Mr. PASSMAN. What percentage does the U.S. contribution represent of the total contributions received by the UNHCR on a yearly basis?

Mr. KELLOGG. The percentage of U.S. contribution representing total contributions received by UNHCR from 1969 to 1973 are as follows:

Year:	*Percent*
1969	18.6
1970	21.6
1971	19.1
1972	16.7
1973	16.0

OTHER CONTRIBUTIONS

Mr. PASSMAN. What other contributions does the UNHCR receive besides the country contributions?

Mr. KELLOGG. I will provide that for the record.

[The information follows:]

PART A

The nongovernmental contributions in 1972 were as follows:

Danish Refugee Council	$10,714
Miscellaneous donations	1,669
Proceeds from legacies	3,214
Finnish Refugee Council	35,900
Protestant church in Germany	100,000
Radda Barnen, Sweden	70,810
United Nation's Association, Canada	5,950
UNESCO gift coupons	255
Total	228,512

$92,357 for 1972 program and $136,155 for previous year's program.

PART B

Contributions received in 1972 for projects outside the annual program situation:

Nongovernmental contributions

1. For the refugee education account:	
Individual Manneskobgalp, Sweden	$29,759
Radda Barnen, Sweden	11,966
Miscellaneous donations	31
Total	41,756
2. For assistance to refugees in the Middle East:	
Howard Karoghensian Commemorative Corp., New York	2,000
Jinishian Memorial Fund, New York	10,000
Total	12,000
3. Other specified contributions:	
Miscellaneous donations	1,500
Total nongovernmental contributions	55,256

BENEFITS TO THE UNITED STATES

Mr. PASSMAN. Why is it beneficial for the United States to provide a contribution to the UNHCR?

Mr. KELLOGG. UNHCR material assistance program complements the effectiveness of UNHCR legal and political protection for refugees.

This assistance program brings about the rehabilitation primarily through local integration in asylum countries of refugees who cannot or should not emigrate to other countries.

These programs are conducted in developing countries, especially in Africa where there is a proliferation of sensitive refugee problems. The mass agricultural programs which promote the rehabilitation of these refugees are instrumental in resolving amicably and constructively problems which seriously affect the maintenance of friendly relations of African countries, and by assisting asylum countries with an unduly large additional economic burden.

TOTAL BUDGET AND ADMINISTRATIVE EXPENSES

Mr. PASSMAN. What will the total budget of the UNHCR be for the next year?

Mr. KELLOGG. The total UNHCR assistance program budget for 1973 is $7,839,400.

Mr. PASSMAN. Could you please tell the committee what the percentage of this total budget will be used for administrative expenses?

Mr. KELLOGG. The grant-in-aid payable to the United Nations budget for expenses relating solely to the administration of the UNHCR material assistance program is $710,000. This amount is 9 percent of the UNHCR material assistance program funds.

Mr. PASSMAN. How does this percentage spent for administrative expenses compare with other comparable government agencies?

Mr. KELLOGG. The definition of administratve expenses varies from agency to agency in accordance with their programs and objectives.

The administrative costs of UNHCR are computed annually by the U.N. at 10 percent.

By 1972 Cuban program as administered by the Department of Health, Education, and Welfare:

	Millions
Total budget	$145
Distributed to the States for welfare programs	121
Administrative costs	2
Amount exclusive of the State welfare programs	24
H.E.W. administrative expenses of total budget (percent)	8

AGENCY FOR INTERNATIONAL DEVELOPMENT

(1) Total operating costs funded out of administrative expense appropriations and program appropriations—approximately 8 percent of total funds administered by the Agency.

(2) Administrative expense appropriations represent about 2.8 percent of total funding.

STAFF POSITIONS

Mr. PASSMAN. Could you please tell the committee how many staff people they have under the UNHCR?

Mr. KELLOGG. The UNHCR staff is composed of 109 professionals and 206 nonprofessionals, a total of 315.

Mr. PASSMAN. How many Americans work for the UNHCR and what does this represent as a percentage of the total staff on the roles of the UNHCR?

Mr. KELLOGG. There are 11 professional and 3 nonprofessional Americans working for the UNHCR. This represents 4 percent of the total staff.

NEED FOR INCREASE

Mr. PASSMAN. Would you please tell the committee why you were requesting a $100,000 increase over last year's level?

Mr. KELLOGG. Due largely to the continually increasing number of refugees, the cost of the assistance program has steadily risen over the past several years. The 1970 program was for $6 million while the 1974 program is expected to exceed $8.5 million. The U.S. contribution since 1970 has remained at the $1 million level. In the same range of years other countries have increased their contributions by over 30 percent in the aggregate. An increase of $100,000 for 1974 is necessary to help keep pace with the urgent and growing refugee needs, to continue to demonstrate U.S. interest in sharing the increased burden of refugee problems and to encourage international support to reduce the severity of the problems caused by the flight of persecuted people.

U.S. REFUGE PROGRAM

Mr. PASSMAN. The next program is the U.S. refugee program (USRP). The fiscal year 1974 estimate is for $2,400,000, a decrease of $150,000 below the fiscal year 1973 amount.

Would you please explain the functions of the USRP?

Mr. KELLOGG. The main function of the U.S. refugee program (USRP) is to assist in the resettlement of refugees who first arrive in countries contiguous to the Communist countries of Eastern Europe. It is in the U.S. foreign policy interest that these countries of first asylum maintain a liberal asylum policy. However, such a policy is difficult in the face of the economic and political burdens of an ever-increasing refugee population if there is no assurance that the refugees have the opportunity to move onward to other countries where they can be resettled. This program attempts to resettle refugees throughout the world, including a share by the United States. U.S. Government activities thus demonstrate American concern for the victims of persecution and oppression and help meet our obligations under the 1951 Convention Relating to the Status of Refugees.

OPERATION OF THE PROGRAM

Mr. PASSMAN. Would you also please explain briefly how this program operates?

Mr. KELLOGG. The USRP operates through American and international voluntary agencies which provide all the services necessary for resettlement of refugees. These services include counseling, visa documentation, medical, language, orientation, and transportation assistance. All are designed to speed the refugee's establishment in his new homeland. The agencies also provide selective interim material assistance on the basis of need when such assistance is absolutely necessary to resettlement. The refugees are made aware by the voluntary agencies that the assistance they receive is coming from the American people. In addition, our representatives in Geneva conduct periodic field surveys to the main countries of first asylum to review refugee operations and visit host country refugee camps.

ORGANIZATIONS RECEIVING FUNDS

Mr. PASSMAN. Would you please list for the record the voluntary agencies and international organizations the USRP deals through and provides funds to in order to assist the refugees from European Communist countries?

Mr. KELLOGG. We have contracts with the following voluntary agencies:

The American Fund for Czechoslovak Refugees, the Polish American Immigration and Relief Committee, the International Catholic Migration Committee, the World Council of Churches, the Tolstoy Foundation, the International Rescue Committee, the American Jewish Joint Distribution Committee, and the United HIAS Service.

In addition, many USRP refugees who are being resettled in the United States and elsewhere are transported by the Intergovernmental Committee for European Migration.

REFUGEE CAMPS

Mr. PASSMAN. You indicate in the justifications that refugee camps are maintained in several countries throughout Europe. Would you please tell the committee where these refugee camps are located?

Mr. KELLOGG. The principal refugee centers housing refugees from Communist and Communist-dominated countries of Eastern Europe are located in the following areas: Austria, Traiskirchen (near Vienna); Germany, Zirndorf (near Nurnberg); Italy, Padriciana (near Trieste); Latina (between Rome and Naples); and Capua (near Naples); and Greece, Lavrion (near Athens).

Mr. PASSMAN. You also indicate that these refugee camps are maintained entirely by the country where the refugee camp is located. Does the United States provide any people to these camps to train the refugees and provide other services?

Mr. KELLOGG. No U.S. Government personnel are directly involved in the operation of the refugee camps or providing services to refugees there. This is a function of the country in which the camp is located and the various voluntary agencies that are involved in resettlement. Official U.S. personnel have access to the camps and make periodic visits as part of the general supervision and administration of the USRP.

STAFF SIZE

Mr. PASSMAN. Would you please tell the committee what the size of the staff is that is involved in the USRP?

Mr. KELLOGG. The Refugee and Migration Unit of the U.S. Mission in Geneva directly supervises and administers the USRP in addition to working with the International Red Cross and the Intergovernmental Committee on European Migration. The staff consists of four officers, two American secretaries, and 10 local employees.

REFUGEES ENTERING THE UNITED STATES

Mr. PASSMAN. Could you tell the committee how many refugees the United States received last year?

Mr. KELLOGG. In fiscal year 1972, the United States received 28,795 refugees. This included those who entered under seventh preference, Cuban refugees paroled into the United States, and those who entered under the provisions of special acts.

FAR EAST REFUGEE PROGRAM

Mr. PASSMAN. The next program is the Far East refugee program (FERP). The fiscal year 1974 estimate is for $500,000, the same as last year. I gather you do not anticipate any increase in workload in fiscal year 1974?

Mr. KELLOGG. We do not anticipate any significant increase.

OPERATION OF PROGRAM

Mr. PASSMAN. Would you explain briefly how this program operates?

Mr. KELLOGG. Through annual contracts with voluntary agencies, the FERP undertakes projects for refugee assistance. The projects are of two kinds: construction projects and service projects. Construction projects include such projects as refugee housing, hospital facilities, clinics, and community and youth centers in areas of high refugee population. Service projects are similar to those provided for European refugees under USRP. They also include, in addition to assistance in the processing of applications for conditional entry, assistance to refugees to help them become reestablished, student aid, rehabilitation of handicapped and disabled refugees, and vocational training. One aspect of the FERP is that it augments the work of the American voluntary agencies, and thus adds to the American image. In fact, although many FERP projects are only partially FERP assisted, the U.S. Government often receives recognition beyond the extent of its contribution.

ORGANIZATIONS RECEIVING FUNDS

Mr. PASSMAN. Would you please list for the record the agencies we provide the funds to for this program?

Mr. KELLOGG. The agencies currently under contract are Catholic Relief Services, Cooperative for American Relief Everywhere, Inc. (CARE), Hong Kong Christian Service, International Rescue Committee, International Social Service, and Lutheran World Federation.

Mr. PASSMAN. Could you provide for the record an updated table similar to the one appearing on page 541 of last year's hearings showing the amount of funds provided by the United States to Hong Kong and Macau including the Public Law 480 commodities provided?

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
1954	$285,526	$150,650	$436,176
1955	956,770	725,650	1,682,420
1956	831,705	3,979,000	4,810,705
1957	747,463	7,618,750	8,366,213
1958	951,651	3,520,150	4,471,801
1959	1,520,901	3,611,000	5,131,901
1960	1,764,013	5,797,150	7,561,163
1961	617,079	7,208,200	7,825,279
1962	1,072,571	4,404,500	5,477,071
1963	2,066,670	3,186,650	5,253,320
1964	1,747,056	1,616,900	3,363,956
1965	611,989	3,691,200	4,303,189
1966	597,489	2,080,800	2,678,289
1967	234,723	1,357,400	1,592,123
1968	220,897	602,100	822,997
1969	500,000	941,200	1,441,200
1970	500,000	773,500	1,273,500
1971	500,000	427,000	947,000
1972	500,000	160,000	660,000
1973	500,000	98,000	598,000
1974	[2] 500,000		500,000
Total	17,226,503	51,949,800	69,176,303

[1] Incudes estimated cost of ocean freight.
[2] Requested.

HAY LING CHAU LEPROSARIUM

Mr. PASSMAN. Could you please tell me if the Hay Ling Chau Leprosarium has been phased out yet or not?

Mr. KELLOGG. The leprosarium on Hay Ling Chau will not be closed until leprosy patients can be accommodated in the special infectious disease unit of the new Princess Margaret Hospital, due for completion in 1974.

IMPORTANCE OF FERP

Mr. PASSMAN. Does the Department still consider the FERP program to be important to U.S. interest in that area of the world?

Mr. KELLOGG. Yes, we continue to believe that it is a fundamental concern of a free society to offer humanitarian assistance to those in need who have fled oppression because they value human dignity and human rights. Specifically, the FERP gives us an opportunity to apply these principles in East Asia on the same basis as we do in other parts of the world. The program is under constant review.

SEVENTH PREFERENCE

Mr. PASSMAN. Would you explain the term "seventh preference" and how it relates to the movement of Chinese refugees to the United States?

Mr. KELLOGG. Section 203(a) of the Immigration and Nationality Act establishes six "preferences" based on family relationships and technical and professional skills under which persons may apply for immigrant visas to enter the United States. A "seventh preference" under that section provides for the "conditional entry" of refugees to the United States, with a numerical limitation of 10,200 persons per year. Since November 1970 this preference has been applied in Hong Kong, and about 3,000 Chinese refugees per year are entering the United States under this preference.

CAPITAL PROJECTS

Mr. PASSMAN. Do you still think the 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 provide funds for budget support?

Mr. KELLOGG. We have been trying to hold the line on our annual requests for appropriations, in the case of FERP, at $500,000 annually, about half of which is spent on services which we ask the voluntary agencies to provide refugees. We do not support agency activities which are unrelated to the refugee problem. With continuing inflation in Hong Kong and the recent currency revaluations, it is becoming increasingly difficult for our construction projects to have an impact. I should also add that the Hong Kong government and private sources have greatly extended the facilities available to all people, including refugees. Nonetheless, there still remain areas of need, and we are planning to assist refugee fishermen in a cooperative housing project as well as establish refugee clinics in fiscal years 1973 and 1974. Beyond that, we will have to determine at such time whether suitable projects can be found that will serve the U.S. interest.

Mr. PASSMAN. What sort of capital improvement projects do you have planned for this area of the world in the near future?

Mr. KELLOGG. For fiscal year 1973, we are planning a fishermen's housing project in Saikung in the new territories. For fiscal year 1974, we are planning to construct outpatient clinics in connection with the new United Christian Hospital in Kwuntong.

SERVICES TO INDIVIDUAL REFUGEES

Mr. PASSMAN. In the justifications, you indicated that $250,000 will be allocated for services to individual refugees. Could you please tell the committee what types of services you have in mind here?

Mr. KELLOGG. First, there is assistance to refugees entering the United States under seventh preference: Assistance with documentation, reimbursement of necessary medical examinations, language training. Second, is assistance in local reestablishment. This includes assistance for young, newly arrived refugees; vocational training; and school aid.

INCREASE IN REFUGEES

Mr. PASSMAN. You also indicate in the justifications that there have been sharp increases in the number of refugees who fled from China into Hong Kong. Would you please tell the committee the reason for this sharp increase?

Mr. KELLOGG. The reasons are difficult to identify, but seem to be related to the aftermath of the cultural revolution. The great majority are under 30 years of age, and at least a third are students or youths who have been sent down to the country to work with farmers. Perhaps another third are farmers, fishermen, and unskilled workers. The exodus of these refugees appears to reflect a general disillusionment with their prospects for the future and frustration in their hopes for meeting their aspirations.

INTERNATIONAL COMMITTEE OF THE RED CROSS

Mr. PASSMAN. The next item is the International Committee of the Red Cross (ICRC). The fiscal year 1974 estimate is for $50,000, the same as last year. Would you please list for the record the countries contributing to the ICRC, the amount they contributed this past year, and the percentage these contributions represent of the total?

Mr. KELLOGG. Yes, sir.

[The information follows:]

Country	Amount	Percentage	Country	Amount	Percentage
Arab Republic of Egypt	10,400	0.40	Lebanon	4,125	.16
Australia	23,972	.92	Liberia	5,000	.19
Austria	6,560	.25	Liechtenstein	4,000	.15
Belgium	2,880	.11	Luxembourg	1,067	.04
Brazil	3,120	.12	Madagascar	500	.02
Bulgaria	1,600	.06	Malaysia	2,933	.11
Burma	1,707	.07	Mexico	4,000	.15
Cameroon	1,000	.04	Monaco	1,345	.05
Canada	30,911	1.19	Morocco	4,019	.16
Ceylon	617	.02	Nepal	407	.02
Chile	3,120	.12	Netherlands	13,333	.51
Colombia	3,633	.14	New Zealand	8,631	.33
Cyprus	805	.03	Nigeria	1,600	.06
Denmark	22,063	.85	Norway	7,660	.29
Ecuador	351	.01	Philippines	8,185	.32
Finland	7,249	.28	Poland	8,000	.31
France	45,737	1.76	Portugal	4,000	.15
Germany (Democratic Republic)	1,333	.05	San Marino	725	.03
Germany (Federal Republic)	94,860	3.65	Senegal	533	.02
Ghana	1,573	.06	Sierra Leone	1,568	.06
Greece	4,196	.16	South Africa	7,168	.28
Honduras	1,000	.04	Spain	2,133	.08
Hungary	533	.02	Sweden	42,379	1.63
Iceland	667	.03	Switzerland	2,000,000	76.98
India	11,387	.44	Tanzania	831	.03
Indonesia	4,000	.16	Thailand	4,800	.18
Iran	8,000	.31	Tunisia	583	.02
Ireland	2,667	.10	United Kingdom	40,169	1.55
Israel	4,007	.16	United States	50,000	1.92
Italy	21,600	.83	Yugoslavia	667	.03
Japan	20,987	.81	Zaire	1,456	.10
Jordan	2,928	.11			
Korea (Republic)	6,400	.25	Total	2,598,108	100.00
Kuwait	13,333	.52			

FUNCTIONS OF ICRC

Mr. PASSMAN. What are the functions of the ICRC?

Mr. KELLOGG. 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 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.

During the last several years, activity of the ICRC has consistently increased in the fields of humanitarian relief and disaster and supporting assistance—in many cases, in response to requests from the U.S. Government. This organization is Swiss in its constitution and personnel. But it operates on an international level, and has the ability to act as a neutral institution in cases of international hostilities or tension. The scrupulous adherence of the ICRC to the principle of political impartiality is recognized throughout the world. ICRC is thus often able to enter and act decisively and in a timely way in situations in which, because of political sensitiveness, other organizations or governments are either unable to act effectively or are not permitted to participate in the humanitarian action required.

OTHER FUND AVAILABILITIES

Mr. PASSMAN. What other funds will be made available to the ICRC in 1974 besides the country contributions? Please list amounts and sources.

Mr. KELLOGG. It is anticipated that other funds made available to ICRC during 1974 will be provided as follows:

70 Red Cross societies	$266,666
(1) Balance of extraordinary contribution from USG	213,333
(2) Private donations	100,000
(3) Gifts and legacies	44,000
Investment income	72,000
Total	695,999

PAST YEAR ACTIVITIES

Mr. PASSMAN. Could you briefly tell the committee what activities the International Committee of the Red Cross has been involved in the last year?

Mr. KELLOGG. During the last year, 1972, the ICRC continued to give assistance to persons in Israel, the occupied territories, and the Arab countries under the terms of the 1949 Geneva Conventions. This assistance included visiting military and civilian prisoners, transmitting family messages, organizing the reuniting of dispersed families, and providing relief supplies to the needy population. In Southeast Asia (Vietnam, Laos, and Cambodia), ICRC visited hospitals and inspected POW camps; provided medical assistance, especially to children; and distributed food, clothing, and medicines to displaced civilians and refugees.

The ICRC also issued ICRC travel documents to thousands of stateless Asian Ugandans, assisted in the exchange of prisoners between India and Pakistan, and sponsored international conferences of government experts on humanitarian law applicable in armed conflicts the Geneva Conventions).

Mr. PASSMAN. What role does the ICRC play with respect to the India-Pakistan situation at the present time?

Mr. KELLOGG. In addition to prisoner exchanges, the ICRC visits POW camps, delivers mail and family messages, and repatriates the sick and wounded from both countries. The ICRC has served as an intermediary between India and Pakistan on questions regarding prisoners and civilian internees.

Mr. PASSMAN. Is the ICRC heavily involved in the new nation of Bangladesh?

Mr. KELLOGG. The ICRC tracing service is involved in reuniting Bangladesh families. On a regional basis, ICRC has made possible the transfer of stranded persons from Pakistan to Bangladesh, and from Bangladesh to Pakistan. To support activities among the Biharis located in several refugee camps, ICRC administers the Public Law 480 program, high-protein foods, gives medical assistance, and conducts a training program to care for the sick.

BUDGET PROBLEMS

Mr. PASSMAN. Is the ICRC facing any serious budget problems at the present time?

Mr. KELLOGG. Yes. The ICRC has informed us that it is experiencing serious shortfalls in the financing of its structure and operations. They have expressed the hope that the United States and other governments will substantially increase annual contributions to the ICRC to remedy this situation. Information on this situation is contained in a "Note on ICRC Financing" prepared by the ICRC in Geneva, the text of which follows:

The International Committee of the Red Cross is making a sustained effort to insure increased control over its financing and to provide clear accounts.

The requirements which it has to meet are continuity in the financing of its regular activities and flexibility in its varying activities.

To reconcile these two requirements, the ICRC has adopted financial structure which is subdivided into three parts:

1. Permanent structure, constituted by the professional staff necessary for the discharge of the ICRC's regular duties and the equipment available to that staff. To be effective, this structure must be kept within strict limits and should be of a high professional standard. It requires continuity.

2. Temporary structure, constituted by supernumerary staff, essentially delegates and local staff, recruited for a specific period of service with ICRC delegations. The more or less rapid renewal of such staff insures some degree of flexibility, and hence avoids the need for a large permanent structure.

3. Occasional structures, such as those set up by the ICRC when it has to mobilize considerable resources to meet urgent and unexpected needs or to undertake duties clearly beyond its regular activities. Here flexibility is the first consideration.

Occasional structures have a budget of their own, financed by special fundraising appeals. Since such appeals relate to specific events that tend to rouse public opinion, governments and national societies can provide the ICRC with the requisite funds.

For the sake of convenience, the temporary structure is at present being financed by the Swiss Government alone.

The ICRC is very much concerned about the financing of the permanent structure. Despite the arrangements made to maintain the structure within strict limits, in the discharge of its regular duties it requires highly qualified permanent staff adequately remunerated and provided with the requisite equipment. To insure the essential continuity in the financing of its permanent structure, the ICRC is applying itself to the task of closing the gap which exists between the cost of that structure and the annual contributions received.

The Swiss Government's annual contribution, for instance, has been raised from 2.5 to 7.5 million francs. The ICRC would therefore wish to receive an aggregate equivalent sum from the Governments of other States Parties to the Geneva Conventions. Apart from the fact that regular government contributions totaling 15 million Swiss francs, in addition to the annual contributions from National Red Cross societies and its other sundry annual resources, would enable it to cover the cost of its permanent structure, the ICRC considers it an obvious advantage to have the burden of its advantage to have the burden of its principal annual resources shared equally between the Swiss Government on the one hand and other governments on the other hand.

Governments wishing to fix their own annual contribution in relation to the contributions made by other governments can find guidance to this effect by applying to the 7.5 million franc target the same assessment as established in the United Nations scale, which shows the extent to which the various governments agree to bear the cost of organizations which serve the international community.

Southern African Refugee Education Project

Mr. Passman. I note this year you are requesting $300,000 for a new program called the Southern African Refugee Education project. Could you briefly explain to the committee the functions of this program?

Mr. Kellogg. Certainly Mr. Chairman. Broadly, the purpose of this project is to make a contribution to the general education and welfare of selected refugees from Southern Africa. The low levels of education in their homelands, the unavailability of university training, the problems of segregated education and systems which serve to terminate African education below the university level—all create special education needs which can only be satisfied by creating educational opportunities elsewhere. This project provides such an opportunity and enables selected Southern African refugees to attain the necessary credentials for university or other post secondary training and, a better opportunity for gainful employment.

In doing this, the project provides tangible evidence of our support of the principle of self-determination.

Mr. Passman. In the justifications you indicate that the Department will assume the administration of the program this year. Could you tell the committee who operated the program in the past?

Mr. Kellogg. Yes, sir. The program since its inception in the early 1960's has been operated by AID.

SELECTION PROCESS

Mr. PASSMAN. You also indicate that the project provides assistance to asylum countries to finance the education of selected refugees. Could you please tell the committee how these refugees are selected for education?

Mr. KELLOGG. Briefly, the refugee either applies directly or is referred by an organization, such as the Organization of Africa Unity. For those going to the school in Zambia, the application is considered by the Zambian Government's Commission for Technical Education and Vocational Training and the headmaster or principal of the school. For those going elsewhere, the selection is made on the basis of the proposed course of study and the admissibility of the applicant in an appropriate school or training program.

COUNTRIES INVOLVED

Mr. PASSMAN. Could you also tell the committee what asylum countries are involved here?

Mr. KELLOGG. Yes sir. In addition to Zambia, there are students studying under this program in Liberia, Zaire, Ethiopia, Botswana, Kenya, and Tanzania.

Mr. PASSMAN. Would you also tell the committee the source of these refugees?

Mr. KELLOGG. These refugees have fled from Angola, Mozambique, South Africa, Namibia—South West Africa—and Rhodesia.

U.S. INVOLVEMENT

Mr. PASSMAN. Could you tell the committee why the United States feels that it is obligated to get involved in the refugee education?

Mr. KELLOGG. I don't believe we feel obligated in the sense that we have to or must help provide an educational opportunity for Southern African refugees. It is more of a case that it has been and, we believe, continues to be in our own direct interests to do so. Aside from the humanitarian aspects of providing a measure of greater dignity and a chance of a better life for those who are able to benefit from the program, this project is recognized and welcomed by independent African countries as a meaningful symbol of USG support for the goal of self-determination.

ADMINISTRATION EXPENSE

Mr. PASSMAN. This year you are requesting $1,200,000 for administration which is an increase of $107,000 above the fiscal year 1973 amount. Could you please tell the committee the need for this very large increase?

Mr. KELLOGG. The increase is to fund mandatory within-grade salary increases—$8,000—overseas wages and price increases including administrative support—$74,000—and other necessary increases for travel, contractual services, communication, supplies, et cetera. ($25,000).

Mr. PASSMAN. Would you please provide a breakdown of these expenses for the record.

Mr. KELLOGG. Yes, sir.

[The information follows:]

American salaries and benefits	$733,000
Local salaries and benefits	97,000
Travel	23,000
Transportation of things	2,000
Communication, rents, utilities	20,000
Miscellaneous contractual services	15,000
Shared administrative support costs	300,000
Supplies	4,000
Equipment	6,000
	1,200,000

Mr. PASSMAN. Just what do these administrative expenses cover?

Mr. KELLOGG. The administrative funds are used to support my staff in Washington and personnel in Geneva and Hong Kong. The funds will be used for salaries, allowances, travel, communications, supplies, office equipment, shared administrative support costs, et cetera.

Mr. PASSMAN. How many people are involved in the administration item?

Mr. KELLOGG. There are a total of 43 positions.

Mr. PASSMAN. Are these people stationed only in Washington, or do you also have people in Geneva and Hong Kong?

Mr. KELLOGG. The total staff includes 23 positions in Washington, 16 positions in Geneva—of which 10 are local employees—and four positions in Hong Kong—of which three are local employees.

Mr. PASSMAN. This seems like an awful large amount to be used for administration for such a small program. Could you please explain this fact to the committee?

Mr. KELLOGG. This request covers the costs for 43 positions in Washington and overseas, and related administrative costs. In addition to administering the programs for which funds are specifically requested—ICEM, UNHCR, USRP, FERP, ICRC, and African refugees—the staff and funds are needed to perform a number of other refugee functions of the Department of State for which no program funds are requested.

Over 50 percent of the staff time and administrative funds requested are for general ongoing functions of the Office of the Special Assistant to the Secretary for Refugee and Migration Affairs which are not directly connected to operational programs.

Examples of these functions are (1) refugee asylum policy, (2) executive coordination on refugee matters, (3) negotiations and relations with other governments and international organizations, (4) refugee problems in Asia, Africa, and Latin America, (5) congressional and public information, and (6) advisory opinions as to validity of political asylum claims by aliens in the United States.

Mr. PASSMAN. Could you please tell the committee how much was spent in travel for the last full year?

Mr. KELLOGG. $21,000 was spent in travel during 1972.

Assistance to Refugees From the Soviet Union

Mr. Passman. As you know in the last several weeks there has been much discussion and many articles appearing in the papers concerning the suspension of exit taxes by the Soviets on Jewish people leaving the U.S.S.R. Would you tell the committee briefly what the latest situation is with regard to this subject?

Mr. Kellogg. The press has consistently reported in the last couple of weeks that collection of the tax has been suspended. We have received reports that several scores of educated emigrants have been permitted to leave without paying the tax. We hope that these reports indicate that Soviet policy will continue to evolve favorably with regard to emigration.

Mr. Passman. As everybody knows Senator Jackson has proposed as amendment which would block certain trade concessions to the Soviet Union unless they do lift this exit tax. Do you feel that this would in effect force the Soviets to lift this exit tax?

Mr. Kellogg. As I understand, the Jackson amendment addresses more aspects of emigration than just the exit fees. We believe in regard to emigration that the Soviet authorities are well aware of the strong U.S. public and congressional feelings on this subject. As regards trade concessions, we have sought to make sure that the Soviets understand the political process involved in the MFN legislation. The trade legislation submitted by the President to the Congress on April 10, and the President's accompanying message concerning this legislation, specifically address the administration's position on this subject matter.

Number of Refugees

Mr. Passman. What are your latest estimates of the number of Jews which will leave Russia in 1973 and how does this compare to the last year?

Mr. Kellogg. The latest figures indicate that more than 7,000 Soviet Jews entered Israel in the first 3 months of this year. This is about the same level for the same period of 1972.

No Need for Additional Funds

Mr. Passman. As you know, last year we provided $50 million for assistance to refugees from the Soviet Union but I know that this year you are not requesting any funds for this purpose. Do you feel that the appropriation made in fiscal year 1973 is sufficient to carry you through the fiscal year 1974?

Mr. Kellogg. Yes. Our discussions with the United Israel Appeal, the voluntary agency conducting the major part of the programs financed with these funds, resulted in agreements on projects for both fiscal year 1973 and fiscal year 1974.

Mr. Passman. Do you feel that any additional funds will be needed in fiscal year 1974 for this purpose?

Mr. Kellogg. At this time, we do not anticipate the need for further funds for these programs in fiscal year 1974.

USE OF FUNDS

Mr. PASSMAN. Would you please outline for the committee and for the record exactly what these funds were used for in fiscal year 1973 and also what the funds will be used for to finance the outlays in fiscal year 1974?

Mr. KELLOGG. Following is a list of programs which will be assisted by the $33 million expenditure planned for calendar year 1973.

[The information follows:]

	Amount
I. Agreement with United Israel Appeal (UIA):	
1. En route care and maintenance costs in Vienna, Jan. 1, 1973 to Dec. 31, 1973, for 30,000 refugees	$1,200,000
2. Construction or enlargement of transit center in Vienna	500,000
3. Construction of new absorption center and hostels	4,000,000
4. Construction of hospital wing	2,000,000
5. Construction and procurement of apartments and/or mobile homes	15,700,000
6. University scholarships	1,100,000
7. Training and retraining for artisans and technicians	1,000,000
8. Maintenance costs for on-the-job trainees	1,250,000
9. Maintenance costs at Ulpanim, absorption centers and hostels	4,250,000
Subtotal	31,000,000
II. Travel assistance through ICEM loan fund	2,000,000
III. Agreements with other voluntary agencies for movement of refugees to countries other than Israel	475,000
IV. Administrative expenses	25,000
Total	33,500,000

Mr. KELLOGG. Discussions are now in progress on programs for fiscal year 1974. Transportation, maintenance while in transit, housing and education assistance will definitely continue.

Mr. PASSMAN. Are these funds entirely adminstered by your office?

Mr. KELLOGG. Yes.

OTHER ORGANIZATIONS INVOLVED

Mr. PASSMAN. Have you used certain voluntary agencies to administer some of these funds and provide assistance to these refugees? If so, would you please provide a list of these voluntary agencies for the record?

Mr. KELLOGG. The United Israel Appeal (UIA) is the agency which will administer most of the projects. It will work through the Jewish Agency for Israel (JAI) in conducting the actual projects.

The following agencies will administer programs to assist Soviet refugees not going to Israel:

American Joint Jewish Distribution Committee;
United HIAS Service;
World Council of Churches;
International Rescue Committee;
Tolstoy Foundation;
International Catholic Migration Committee;

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Polish American Immigration and Relief Committee; and
American Fund for Czechoslovak Refugees.

FUTURE REFUGEE MOVEMENT

Mr. PASSMAN. Do you feel that this Jewish refugee movement from the U.S.S.R. has been evened out or do you expect an increase in the refugee movement from the Soviet Union in the next several years?

Mr. KELLOGG. This depends on how many Soviet Jews may wish to emigrate and how many may receive permission. We are not really in a position to make any useful speculation about developments over the next several years, but I would repeat our hope that Soviet policy in regard to emigration will continue to evolve favorably.

OTHER COUNTRIES INVOLVED

Mr. PASSMAN. Are other countries providing aid to these Jewish refugees?

Mr. KELLOGG. No other countries are providing direct governmental assistance to these refugees. The JAI does receive voluntary contributions from other countries.

Mr. PASSMAN. Are all these refugees migrating to Israel or are they also going to other countries? If so, would you please again provide for the record the countries and the number of Jewish refugees migrating to these countries?

Mr. KELLOGG. Some Soviet migrants, not all of whom are Jewish, are coming to the United States and a small number are going to countries in Western Europe and South America as well as to Canada and Australia. In 1972, over 500 entered the United States. There has been a continuing but varying migration to West Germany, a movement in which the United States is not involved. During 1972, 3,300 ethnic Germans emigrated to Germany from the USSR; in January of this year 140 did.

Mr. PASSMAN. Mr. Roybal.

RATIO STUDENTS AMONG REFUGEES

Mr. ROYBAL. You stated that the refugees in Africa now number 1 million souls. You made reference to students being included in that 1 million. Can you tell us how many were students and whether or not there is a difference in the allocation of funds between students and nonstudents?

Mr. KELLOGG. If I understand your question correctly, Mr. Congressman, there is a flow of refugees from Southern Africa into the surrounding African states, and the U.S. Government has felt it important to help a very small, limited number in the area of 300 students annually with scholarships. That is the extent of that particular program. So, it is 300 students versus 1 million refugees, if I am answering your question correctly.

Mr. ROYBAL. The students, then, are actually placed in an institution of higher learning, or are there students also who may be at the high school level?

Mr. KELLOGG. It is high school and university level, Mr. Congressman. The students are carefully chosen and are given this opportunity

both as an expression of U.S. Government interest in them, and because it is felt that these students will become leaders in Southern Africa when self-determination takes effect.

REFUGEE KNOWLEDGE OF U.S. SPONSORSHIP

Mr. ROYBAL. In all your programs dealing with refugees, do the refugees know they are being helped by the United States?

Mr. KELLOGG. The answer is, they do, yes. I can testify to that from personal knowledge and personal visits to the field.

In certain cases, obviously, there is more consciousness of the American help than in others, primarily where there is a USRP program, which is purely American. We contract with American voluntary agencies. The result is that there is a great consciousness of the American presence.

Mr. ROYBAL. In most places where there is no consciousness of the American presence, why is it that they are not told and they do not know that it is U.S. dollars that are helping them in some cases?

BENGALI REFUGEE SITUATION

Mr. KELLOGG. I think perhaps an example answers your question best. In the instance of the Bengali refugees where 10 million had fled from what is now Bangladesh to the surrounding area of India, the Indian Government did not allow voluntary agencies other than those that were present at the time of hostilities between Pakistan and India. Therefore, the extent to which the American flag was visible was very limited.

Mr. ROYBAL. I cannot really understand how you can claim that this program establishes peace throughout the world if the United States in most instances is not recognized as being the nation that is helping.

INDIAN VOLUNTARY AGENCIES

Mr. KELLOGG. Again, if I may use the Bengali situation, in that particular refugee situation the greatest amount in dollars from the international community was collected, I believe, for any particular refugee program, touching the area of $250 million. Every other contribution country was in the same situation as the United States. In other words, the money was turned over to the High Commissioner for Refugees, who in turn gave it primarily to Indian voluntary agencies that dispensed the food, medicine, and so forth, in the field.

Mr. ROYBAL. This is exactly what I am worried about, the fact that moneys are turned over to someone else, and we do not really know how that someone else spends that money. How do you follow through, once you turn that money over to the Indian agency? How do you know how they spend the money?

Mr. KELLOGG. This is a matter of concern to the State Department and to my office. We had to answer to the General Accounting Office and others.

The efficiency of the Indian Government and the lack of diversion of refugee supplies into other areas was absolutely extraordinary. People were in the field. Accounts were kept. Despite every effort that

the GAO made, there was no evidence that there were discrepancies or diversions.

Mr. ROYBAL. In other words, you contend that you are safe in the administration of funds by transferring funds to the agency that you now say is so efficient, that this is a proper administrative procedure?

Mr. KELLOGG. Our experience over a good many years has been excellent in this regard.

JEWISH VOLUNTARY AGENCY

For example, in the present instance of the $50 million that we are about to contract with UIA, our contract has all kinds of safeguards built into it. The Jewish representatives are just as anxious as we are that nothing happens to those funds other than what they are intended for. They have an interest in efficient administration and honesty the same way we do.

Mr. ROYBAL. May I say you have met with a lot better luck than this committee has, because for years now we have been handing out money to various agencies, and any one of us can name several agencies that are not half as efficient as the agency you have described. I would say you have been more fortunate than we have been in that respect.

ADMINISTRATION OF VOLUNTARY AGENCIES

As we look into this matter, I hope each one of these agencies is properly administered. I feel this committee does not oversee most of these things. I would like to see this committee actually take each one of these departments and even go to the extent of spot auditing to try to make some determination of how these funds are really spent.

I do not think anyone on this committee or anyone in Congress, including the chairman of the committee, can tell you precisely how this money is spent in each and every one of these agencies; $8.5 million is a lot of money.

Anyway, it is my hope that something like this can be done in the future.

One more thing.

ETHNIC ORIGIN OF AMERICAN STAFFS

You were asked to give the percentage of Americans on the staff. I would like to break that down even more than that. I would like to know how many blacks there are on the staff all over the world, how many Mexican-Americans. Break it down into the ethnic minorities in the United States to try to determine how your percentages bear out.

Mr. KELLOGG. We will be glad to supply that information.

Mr. ROYBAL. Thank you very much.

That is all, Mr. Chairman.

[The information follows:]

The total American staff of ICEM is 22 Americans. In this total there is one black and one American Indian or 9 percent of the U.S. staff are minority employees.

The total American staff of the UNHCR is 14 Americans. In this total there is one black and one oriental or 14 percent of the U.S. staff are minority employees.

Mr. PASSMAN. Thank you, Mr. Roybal.

I believe it would be proper to repeat for the record at this point that as of the last count there were 4,406 programs or projects or subprojects in 101 nations of the world.

VARIOUS FACETS OF FOREIGN AID PROGRAMS

You have a small item here of $8 million. When we finish looking at all the facets of foreign aid before we finally mark this bill up it will exceed $18 billion. It is absolutely impossible for us to have too much knowledge of it.

Even our bilateral programs, we go out around the world and do our very best to mingle with the people and find out if they know where this aid is coming from. On bilateral programs they do not know because the government officials are smart enough to take the full credit. The intellectuals know it is coming from America, but certainly not the people that we are helping.

When you move over to the multilateral organizations, it is absolutely impossible for these people to know who is making the contribution. They do not know the donor. In many instances, we do not know the recipients.

Let us let the record show that when we make a contribution to these multilateral organizations, we usually put in the largest percentage of funds. Other nations put in little tidbits. It is then stirred up. When the allocation is made to a project in a nation, it is made in the name of that international organization, is it not?

Mr. KELLOGG. Yes.

Mr. PASSMAN. Of course, the recipient has no idea of America's generosity. That is pretty well indicated by some of the visits we make around the world when we find people are not appreciative and they cannot be appreciative because they do not know anything about our generosity.

I think the time is long overdue to get a lot of these programs under better control. I do not actually believe that our President realizes that these international financial institutions are making questionable loans for projects when you are actually impounding funds for the same projects here in America. It has gotten out from under control. I do not know whether we will ever bring it under control or not, but we will try.

Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

LACK OF FUND CONTROL—VOLUNTARY AGENCIES

This committee has always supported assistance for refugees in various parts of the world, particularly in India, and in the ICEM program.

I concur with the chairman and Mr. Roybal in the matter of the lack of control that this committee or any committee of the Congress has, particularly as it relates to what happens to these funds after you release them.

You mentioned that you were negotiating a $50 million contract with an agency that none of the members of the committee knew anything about. This is an example of how money is appropriated

without much explanation of its use or any post audit of its use. There is no accounting made to this committee or to some other committee of the Congress.

SOUTHERN AFRICA REFUGEE EDUCATION PROJECT—FUND TRANSFER FROM AID TO MIGRATION AND REFUGEE ASSISTANCE

You are requesting $300,000 for the southern Africa refugee education project which has been taken over from AID. We have heard this before. Why has this program been removed from the request of the Agency for International Development and put into your shop?

We have had this program before, but it has never been in your request.

Mr. KELLOGG. That is correct, Mr. Congressman. It has always been in AID.

Mr. SHRIVER. It is supposed to be an educational program, is it not?

Mr. KELLOGG. That is what the funds were for, but basically it is for a foreign policy objective. That is one of the reasons.

Mr. SHRIVER. Of course, that is partly the reason that we have the Agency for International Development.

Mr. KELLOGG. That is right, sir. The foreign policy aspect is where the State Department and my office are directly involved. The objective is to create a cadre of educated leaders or potential leaders who will return one day, it is hoped, to Southern Africa to play a very substantial role in those countries.

AD HOC WORKING COMMITTEE ON SUPPORTING ASSISTANCE

Mr. SHRIVER. I think we should have more of an explanation of the reason for its transfer from the Agency for International Development over to you.

Mr. KELLOGG. A committee which was known as the Ad Hoc Working Committee on Supporting Assistance felt that the project could no longer be properly classified or justified as "supporting assistance." It was for that reason.

Mr. SHRIVER. What committee?

Mr. KELLOGG. The Ad Hoc Working Committee.

Mr. SHRIVER. Is that a committee around here?

Mr. KELLOGG. That is an administration committee, one that was working within the AID agency.

Mr. SHRIVER. Have we heard about this before?

Mr. PASSMAN. It is new to me.

VOLUNTARY ORGANIZATIONS CONTRIBUTIONS

Mr. SHRIVER. Last year you inserted information showing that voluntary organizations contribute $10 million for the benefit of the refugees dealt with by these organizations. Will you update that information for the record?

Mr. KELLOGG. Yes, sir.

[The information follows:]

The voluntary agencies report that they contribute $11 million per annum to assist the same group of refugees that are supported by the U.S. refugee program. The voluntary agencies report that indirect support and voluntary services are equal to additional millions of dollars.

INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)

Mr. SHRIVER. You also told us last year that the International Committee of the Red Cross needed more money, but that you were not allowed to request more than $50,000 by law. What is the situation now?

Mr. KELLOGG. It is exactly the same. It has not changed. That law still stands and the amount of money is still $50,000.

Mr. SHRIVER. Is the administration proposing legislation to increase our contribution?

Mr. KELLOGG. Not to my knowledge.

RED CROSS MIA ROLE IN SOUTHEAST ASIA

Mr. SHRIVER. What role is the Red Cross playing in the search for the U.S. missing in action in Southeast Asia?

Mr. KELLOGG. It is my understanding that it is one of the primary organizations that are in the field attempting to locate missing in action.

Mr. SHRIVER. Have you any recent reports?

Mr. KELLOGG. When we met a year ago, I had a recent report, within a week of the time that we sat in this very room. I have not personally had any recent report.

Mr. SHRIVER. I think we had better have in the record a report of their activity, because there is still a tremendous amount of interest in the subject here in Congress and in the country.

Mr. KELLOGG. I will be glad to supply that for the record.

[The information follows:]

The ICRC has continued its efforts to aid prisoners of war and other war victims in Indochina, and to search for information about American missing in action personnel, including civilians. ICRC delegates in each of the Indochina countries work directly with the local population and with host governments on this subject. In addition, the ICRC's Central Tracing Agency maintains records on our missing in action, on the basis of which it carries forward its traditional efforts in this area.

FINANCIAL ASSISTANCE TO THE RED CROSS

Mr. SHRIVER. Do we furnish financial assistance or any other kind of assistance to this effort in addition to the amount we contribute to the Red Cross?

Mr. KELLOGG. We have on one or more occasions. I think the last time was in 1971 when there was an ad hoc contribution of $1 million. This was because the ICRC had run heavily into debt as a result of their efforts on behalf of the Prisoners of War in Vietnam.

Mr. SHRIVER. Where did that come from?

Mr. KELLOGG. AID.

LOAN TERMS FOR REFUGEES

Mr. SHRIVER. What are the loan terms that ICEM has with the refugees, Jewish or otherwise, from Eastern Europe?

Mr. KELLOGG. They vary slightly. In the case of the Jewish refugees, the loans are guaranteed by the Israeli Government. A total of 45 per-

cent is returned to the loan fund for each refugee who borrows from it.

Mr. SHRIVER. What kind of loans are they? How long do they have to repay them?

Mr. KELLOGG. They are interest-free loans. The amount is roughly $95 per refugee who was traveling from Vienna to Tel Aviv. Of that $95, the Israeli Government returns approximately 45 percent within 30 months.

Mr. SHRIVER. What is the payment history from the refugees?

Mr. KELLOGG. In the case of the refugee, if the refugee is a Jewish refugee, we are not aware of whether or not the Government attempts to get back from the refugee any portion of this loan fund. Perhaps they do.

Mr. SHRIVER. Forty percent?

Mr. KELLOGG. Or even 100 percent. I do not know.

In the case of the loan fund extended for refugees from Communist Europe, the return has been excellent, and particularly outstanding in the case of Chinese refugees in Hong Kong who borrow from our loan fund to come to this country.

ICEM—REPAYMENT OF LOANS HISTORY

Mr. SHRIVER. You are talking in generalities. Will you put in the record a summary of the repayment history, the terms, and such information, so we can be informed concerning the work of ICEM?

Mr. KELLOGG. I will be glad to do that, sir.

[The information follows:]

The following is a breakdown of withdrawals and collections (prepayments and repayments) under ICEM Refugee Loan Fund during period 1964–1972:

Year	Withdrawals	Collections, prepayments, and repayments
1964–66	$618,298	$539,233
1967	267,220	567,329
1968	679,500	737,963
1969	1,102,300	595,279
1970	808,913	876,669
1971	487,687	922,147
1972 (excluding Israel)	557,544	564,708
1972 (Israel movements)	1,963,409	
Total	6,484,871	4,803,328

Note: The amount of $1,963,409 shown for Israel is the amount withdrawn to finance movements to that country under special loan fund arrangements. The first repayments are expected by June 30, 1973.

The procedure for loan assistance given by volags from ICEM Refugee Loan Fund is as follows:

A. As soon as the refugee is approved for entry to an immigration country, the voluntary agency office requests ICEM to arrange transportation, indicating the case is in need of loan fund assistance. ICEM then notifies the voluntary agency of the movement arrangements made, and the transportation rates to be included in the promissory note signed by the individual refugee. The promissory note is then sent to the voluntary agency office in the immigration country for collection purposes.

B. The promissory note provides for installment payments without interest which the refugee should commence to make normally 3 months after arrival in the country of immigration. A small prepayment may be collected overseas from the refugee if he is able to make such a payment, and this is deducted from the total amount of his loan.

C. The period of loan repayment is initially governed by the size of the loan in the case of family groups and normal installment payments may be spread over a period of 18 months to 3 years. The voluntary agency offices follow up with the individual the payments of his installments. If the individual encounters financial problems, such as hospitalization, it may be mutually agreed to waive installment payments for a period; if these difficulties are of an extremely serious nature, the voluntary agency may decide to cancel the promissory note after consulting ICEM.

D. In order to support the collection machinery of the voluntary agencies, they are entitled to retain as a collection fee 25 percent of the collections received against the ICEM transportation loan and to transfer the balance to ICEM.

E. At the end of a 5-year period for the loans issued in any particular year, there is a review between ICEM and the voluntary agencies to determine whether any outstanding loans at that point should be written off.

ICEM—CHANGES IN LEVEL OF MEMBER CONTRIBUTIONS

Mr. SHRIVER. Have the contributions made by the 31 member governments of ICEM changed markedly after the general lessening of tensions in the area?

Mr. KELLOGG. It has generally followed the same pattern over the years, as I understand it. Australia has been by far the largest contributor to the migration aspect of ICEM.

Mr. SHRIVER. Of course, there is a great number of refugees to be assisted.

Mr. KELLOGG. Whereas we are the largest contributor to the refugee aspect of their work.

Mr. SHRIVER. You are going to put into the record a table showing the information I requested previously?

Mr. KELLOGG. Yes, I will be glad to supply it.

U.N. HIGH COMMISSIONER FOR REFUGEES—PERCENT OF U.S. CONTRIBUTIONS

Mr. SHRIVER. You are asking for a 10-percent increase in our contribution to the U.N. High Commissioner for Refugees. With this increase, our contribution will be 16 percent of all government contributions, I believe. Is that correct?

Mr. KELLOGG. That is correct, yes, sir.

Mr. SHRIVER. What would be our percentage without this increase that you are requesting?

Mr. KELLOGG. I do not believe I have that figure.

Mr. SHRIVER. Put it in the record.

Mr. KELLOGG. We will be glad to put it in the record.

[The information follows:]

A contribution of $1 million from the United States would be 15 percent of the anticipated government contributions to the UNHCR's program for 1974.

INCREASE IN U.S. CONTRIBUTION TO U.N. HIGH COMMISSIONER FOR REFUGEES

Mr. SHRIVER. You say this increase will be a step toward enhancing the U.S. image and upholding our views among United Nations members. Do you think it is necessary to enhance our image?

Mr. KELLOGG. I have a very strong——

Mr. SHRIVER. What can $100,000 do to enhance our image?

Mr. KELLOGG. The amount that we have given has stood still the last

4 years, if I recall correctly, whereas other countries have increased by more than 30 percent during the same period of time.

Mr. SHRIVER. I am on another subcommittee of appropriations where there are large decreases, cuts and reductions in domestic health and education programs at a time when we are trying to control inflation and to avoid the necessity of an added tax on the people.

Here you are asking for an increase for the United Nations. It is a rather small amount, but according to what you say, it is just to enhance our image.

Mr. KELLOGG. As I mentioned a minute ago, we have not increased the amount we have given in 4 years, but at the same time world turmoil and the problems of refugees are greater today than they have been at any particular time.

Mr. SHRIVER. So are our fiscal problems.

Mr. PASSMAN. Would the distniguished gentleman yield?

Mr. SHRIVER. Certainly.

AID HANDLING OF INDUS BASIN PROJECT

Mr. PASSMAN. This is pursuing your line of examination.

We are not directing the criticism to you, Mr. Kellogg. I refer you to the committee's report last year on the Indus Basin. AID made a request for $43 million for the Indus Basin Development Fund. This committee, after long deliberation, recommended $22 million with this language:

> The committee would like to point out that many projects in the United States are faced with the same problems. The committee feels foreign aid projects should wait in line for U.S. funds just as projects in this country are required to do and it has recommended the same appropriation amount as we provided last year for both of these items.

After specifically reducing this item by $21 million and writing this language in the report, AID, without any consultation with any member of this committee, went ahead and made an additional allocation of $5.7 million to the Indus Basin using as the excuse that the costs would increase because of possible construction delays.

We are delaying all types of projects in this country.

This is pretty much par for the course. They do not pay any attention to the recommendations of the committee and do not pay any attention to what the Congress says.

I am merely asking the gentleman to yield to put this in the record so the new members will understand how completely the administrators of these programs ignore the recommendations of the committee. I hope it will be different this year from previous years.

I thank the gentleman.

FAR EAST REFUGEE PROGRAM—CHANGE IN RELATIONSHIPS WITH PEOPLE'S REPUBLIC OF CHINA

Mr. SHRIVER. Do you see any major change in direction for the Far East refugee program because of the better relations between our Government and the Government of the People's Republic of China?

Mr. KELLOGG. No, I do not. As I mentioned earlier in my testimony, I reported to you that it is the one program anywhere in the whole

Far East that indicates our interest in people who are escaping from Communist China. The Bureau of Far Eastern Affairs of the Department has felt that this interest was a very important one, despite what has been going on between the United States and Peking. Of course, the program is under constant review—as are all our programs.

Mr. SHRIVER. Are any of your programs dealing with the problem of Pakistani prisoners still held in India?

Mr. KELLOGG. No, sir.

U.S. REFUGEE AND MIGRATION POLICY—CUBA

Mr. SHRIVER. You are responsible for the formulation of U.S. refugee and migration policy, are you not?

Mr. KELLOGG. That is correct.

Mr. SHRIVER. What is the situation between the United States and Cuba regarding migration of Cuban refugees, and what is our policy under the antihijacking agreement?

Mr. KELLOGG. May I answer the first part of your question initially, and then address myself to the second portion?

With respect to Cuban refugees, the major change within the last very short period of time is that it is our understanding that the airlift is finally coming to a complete stop. This has been rumored before. There are indications that this is a total and complete windup.

If true, this will mean that many fewer Cuban refugees will be arriving on the shores of the United States.

With respect to the hijacking agreement with Cuba, as I understand it, it refers directly to commercial airlines, as well as registered ships. The agreement specifies that hijackers apprehended either in the United States or in Cuba will face prosecution in either country.

Have I explained that at all?

Mr. SHRIVER. I just wondered what our policy is. You are involved in this.

Mr. KELLOGG. My involvement is in a slightly different area, and that is a refugee found in this country will not be returned to face possible imprisonment or prosecution, through the asylum policy. There may be a certain amount of conflict between these two.

ADMINISTRATION OF AID PROGRAM

Mr. SHRIVER. You do not administer the AID program we have, really a foreign welfare program, which comes before this committee. I think you mentioned $90 million a little while ago.

Mr. KELLOGG. That is correct.

Mr. SHRIVER. You anticipate that will decline, do you not?

Mr. KELLOGG. I understand that is true, yes, sir.

Mr. SHRIVER. How about the decline from last year's request to this one?

Mr. KELLOGG. $145 million in 1973.

Mr. SHRIVER. Down to $90 million?

Mr. KELLOGG. Yes.

Mr. SHRIVER. Thank you, Mr. Kellogg.

Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Bevill.

U.N. HIGH COMMISSIONER FOR REFUGEES

Mr. BEVILL. Mr. Kellogg, how long has this program been in existence?

Mr. KELLOGG. The High Commissioner's Office, for example, was formulated in 1951, and our office was a result of the Migration and Refugee Assistance Act of 1962.

Mr. BEVILL. Then the United Nations High Commissioner for Refugees was set up prior to this program, is that right?

Mr. KELLOGG. In the present form, yes, sir.

Mr. BEVILL. Is there any reason that these programs which are scattered about cannot be handled through the United Nations Commissioner for Refugees?

PURPOSE OF PROGRAM

Mr. KELLOGG. The primary purpose of the United Nations High Commissioner for Refugees, the very fact that he came into existence at all, was for legal protection of refugees; in other words, one aspect of the refugee problem.

Approximately 15 years ago the United Nations High Commissioner for Refugees broadened his activities to include actual material assistance, but still his main raison d'etre is for legal protection, and that is why he has offices around the world.

POSSIBLE OVERLAP OF PROGRAMS

Mr. BEVILL. You can see why I am asking that question. Here the different countries participate. We are putting in $1,100,000 for 1974, as I understand it.

Mr. KELLOGG. That is correct, sir.

Mr. BEVILL. This makes much more sense to me than the United States taking on these programs itself to handle these refugee problems, because there you have an organization. We have no organization, I gather. We are using the various committees in the various countries.

Mr. KELLOGG. That is right, sir.

Mr. BEVILL. There are overlapping programs. This concerns me.

Why not let the International Red Cross handle these matters? That is an international organization. You have two international organizations, the United Nations High Commissioner for Refugees and the International Red Cross, which I understand is handled by the Swiss. Here are two international organizations. Yet we here in the United States are taking the American taxpayers' money and handing it to this committee or that committee scattered all over the world. This does not seem right to me.

DIFFERENT ROLES OF PROGRAMS

Mr. KELLOGG. The two organizations to which you refer have quite different roles in the international community.

The High Commissioner, as I mentioned before, is basically concerned with the protection of a refugee, to see that he is not deterred——

Mr. BEVILL. The million dollars we are giving to the High Commissioner is not for protection?

Mr. KELLOGG. No, sir, it is not. It is for the material assistance program.

Mr. BEVILL. Which is what you are doing, is it not?

Mr. KELLOGG. Yes, sir, except that there are many reasons why the U.S. Government is inhibited from direct participation, particularly in Africa.

In other words, it is much better for the U.S. Government to work through the High Commissioner's office in the case of his material assistance programs in Africa.

Mr. BEVILL. The work your agency is doing is a very commendable thing. We all want to alleviate human suffering. There is no question that you and your personnel are very dedicated people, and I am not questioning anything that you are doing.

FUNDING PRIORITIES

I am questioning the whole program in this respect: We have to determine priorities. Is it more important that your agency have this money for these various projects in foreign countries, or is it more important for Chairman Passman to have a project in his district? This is what we are faced with, as you know.

There is no question about your program doing some good, but there is a question of priorities which we have to face. We have to make that decision.

That is why I am asking these questions. It is pretty hard for me to go back to Alabama and say we could not get this water system because the funds were frozen because of inflation, and then say we did pass an appropriation where we are spending $2,000 per student to train students over in Africa. It is pretty hard for us to explain this, as you can understand.

Mr. PASSMAN. Or a $100 million loan to Sudan.

Mr. BEVILL. Even more difficult, the $100 million for Sudan, with which we recently had a problem.

I cannot say this is to keep peace on Earth. I think that is a term you used. You can imagine how far I would get with that.

This is what concerns me, frankly, about the whole program. Why should the United States, which has a bigger national debt than all the other countries on Earth, be playing Santa Claus, in effect—gifts. We participate in international banks that loan these countries money. The countries need money, and they can go to these banks and borrow it, in which 25 or 30 countries participate.

But your program is just Uncle Sam giving out the money.

At least other countries think enough of the programs of the United Nations and the International Red Cross to participate in their programs.

This is what concerns me. Of course, I am a new member of this committee. Maybe I will learn more. I will certainly keep an open mind. I did want to express the way I see it at this time.

That is all, Mr. Chairman.

Mr. PASSMAN. Thank you.

FOREIGN EXCHANGE CREDITS

So many of these so-called recipient countries have large foreign exchange credits. We went out and borrowed $100 million in U.S. dollars from Thailand, and almost created an incident. We wanted a quarter of a billion dollars, but they said, "We will let you have $100 million." We wanted it for 8 years. They said, "We will let you have it for 4½ years at an interest rate of 6 percent." That $100 million will be due in about 60 days.

That is only one example which shows you how really ridiculous this program is. We were pouring grant aid in the back door, and we were borrowing out of the front door.

Mr. Miller?

MOVEMENT OF REFUGEES

Mr. MILLER. Thank you, Mr. Chairman.

Mr. Kellogg, I notice in your testimony you say:

> The South Asian situation, as you know, has largely resolved itself. There still are human problems in the subcontinent—Biharis in Bangladesh, Bengalis in Pakistan, prisoners of war under continued detention. But the great mass of refugees in India returned swiftly to their towns and villages soon after establishment of Bangladesh. . . .

Then you go on to another area:

> A less dramatic but equally satisfactory development has come in the Sudan.

You tell there of the refugees returning.

Those two instances make me wonder if we are supporting immigrants who will migrate in both directions, out of their country to another country, and then decide to return. We would support them on the return trip?

BENGALI REFUGEES

Mr. KELLOGG. Not at all. These were true refugees in every sense of the word. They fled in the case of the Bengalis from what is now Bangladesh, in genuine fear of their lives. I saw them myself.

The facts of what happened in what was then East Pakistan are too well known for me to take the time of the committee to repeat them. They fled. Their houses were burned. Their crops were destroyed. They were not migrating. They were fleeing for their lives.

Mr. MILLER. You helped support them at least in the migration. They moved out, is that not correct?

Mr. KELLOGG. That is correct.

Mr. MILLER. Our dollars helped move them out.

Mr. KELLOGG. No, it did not move them at all. They came on their own feet, creeping out at night. They were not visible in the daytime. They were avoiding two armies that were drawn up facing each other. Many of them suffered terrible privation.

Mr. MILLER. Did we help them return?

Mr. KELLOGG. Yes, we did.

Mr. MILLER. So, we helped at least one way of the passage. That was my question.

Mr. PASSMAN. Will the distinguished gentleman let me make clear a contradiction in previous testimony.

You do have refugees from country A going to country B. Some of

the same refugees leave country B and return to country A, do they not?

Mr. KELLOGG. Yes.

Mr. PASSMAN. And you finance them both ways?

Mr. KELLOGG. No.

Mr. PASSMAN. You provide assistance.

Mr. KELLOGG. Not on the way out.

Mr. PASSMAN. But after they come out, you do reimburse them. You give them food and lodging and medical expenses. You incur the expense after they come out.

Mr. KELLOGG. That is correct.

Mr. PASSMAN. You do take them out of country A and bring them over to country B. Then they decide they want to go back to country A, and you provide the transportation back, do you not, whatever the cost may be?

I wanted the record to show that you do have a two-way street there. We endorse their coming out, and we endorse their going back.

Mr. KELLOGG. Mr. Chairman, we do not endorse them coming out. They come out under duress.

Mr. PASSMAN. But that is where your money goes. After they get out, they come to you. We start incurring these expenses to help these people after they get out.

Mr. KELLOGG. In the camps wherever they may be.

Mr. PASSMAN. That is a statement of fact. That is where we become involved with these expenditures in helping these refugees after they come out, is that right?

Mr. KELLOGG. That is correct, yes, sir.

Mr. PASSMAN. If later some of them want to go back, you pay their expenses back.

I thank the gentleman for yielding. I wanted to get the record a little clearer on that.

Mr. MILLER. I thank the gentleman.

SOVIET JEW REFUGEES

"A third development on the encouraging side," your testimony states, "has been the movement from the Soviet Union of Jews wishing to settle in Israel."

You go on to tell that the Congress provided $50 million in fiscal year 1973.

My question is: Your testimony states that in August 1972, the Soviets imposed fees to reimburse the state for education costs of migrating citizens, which threatened to inhibit the departure to Israel of some individuals, and "since then many Soviet Jews have had to pay the fees in order to depart."

Are any of our funds being used to reimburse the Soviet Union for educational fees or costs of the migrating citizens?

Mr. KELLOGG. No, sir; not 1 penny.

SOUTHERN AFRICA STUDENT EDUCATION PROJECT

Mr. MILLER. You also state on page 6 of your testimony:

> Others have fled from southern Africa, including the students whose tuition—the smallest item in our line budget—my office is assuming from AID.

You state that this will cost $300,000 compared to the total.

A few minutes ago I understood you to say that there would be some 300 students in that program. On page 12 of your justification for fiscal year 1974, you indicate that this amount of money would support up to 145 students at an annual cost of approximately $2,000 per student.

Apparently there is another budget that will support the other 155 students.

Mr. KELLOGG. I am indebted to you for correcting my testimony. The correct figure is 145 students.

Mr. MILLER. Very good.

Where are these students educated? Are they moved to our country, or are they educated in universities in Africa?

Mr. KELLOGG. About 8 or 9 years ago, through an AID program, a secondary school was built in Zambia. In addition, approximately 45 students attended nearby universities.

Mr. MILLER. In our country and in my congressional district, we have quite a few students who have national defense loans. They must repay those loans over a fairly long period of time. Is there any repayment from these students back to you for the assistance given to them in order to gain their education?

Mr. KELLOGG. This is not part of the program. One reason for it is that at this particular moment there is very little hope for employment, and there is no definite known time when they will return to their own country and be able to be gainfully employed.

Mr MILLER. We are saying, then, that this would be an outright grant, compared to the loans given to my constituents?

Mr. KELLOGG. It is an outright grant, yes.

Mr. MILLER. Thank you.

ZAMBIAN SITUATION

Mr. SHRIVER. These people are in Zambia because they are dissatisfied with their own government?

Mr. KELLOGG. That is right. They fled from their own countries. They are minorities facing persecution and escaping for that reason.

Mr. SHRIVER. Could U.S. citizens who are unsatisfied with our Government qualify for this school? What would prevent them from doing so?

Mr. KELLOGG. This program is for African refugees who fled under duress, pressure, only because of their belief in a different form of government.

Mr. PASSMAN. Mr. Coughlin.

Mr. COUGHLIN. No questions, thank you, Mr. Chairman.

AID STUDENT PROGRAMS

Mr. PASSMAN. I think under AID they have financed thousands of students, have they not?

Mr. KELLOGG. Yes.

Mr. PASSMAN. It is a frighteningly high number. Some of them come from fairly wealthy countries. Let us not let the record show all these students are coming from poor countries.

Mr. Yates, we were just concluding, unless you have some more questions.

Mr. YATES. No. I just came from my other subcommittee, Mr. Chairman. Not having the benefit of your examination, I think I will just defer.

Mr. PASSMAN. Mr. Long was unable to be here but he has submitted the following questions for the record.

[The questions follow:]

Mr. LONG. Regarding the Far East refugee program, do you feel that the administration's present policies toward mainland China conflict with the continuation of funding for this program as a separate program?

Mr. KELLOGG. The United States has traditionally continued to assist refugees who have fled from persecution, even when they have fled from countries with which we have had full diplomatic relations.

Mr. LONG. In the budget justification you mention the increase in numbers of refugees from mainland China in 1971 and 1972. What were the numbers of refugees from mainland China from 1969 to 1972 by year?

Mr. KELLOGG. We estimate the number of Chinese refugees arriving in Hong Kong to have been:

1969	11,000
1970	7,500
1971	13,500
1972	14,500

Mr. LONG. What are the numbers of Chinese refugees presently living in the United States, who are receiving assistance through voluntary agencies who have contracts with FERP? How many refugees have been receiving assistance for less than 2 years and how many for more than 2 years?

Mr. KELLOGG. The FERP provides funds to voluntary agencies which assist refugees in various ways in their immigration, including paying for medical examinations, documentation fees, language study, and arranging for travel loans. The Office of Refugee and Migration Affairs also worked with the ICEM in the establishment of a travel loan fund from which a relatively few needy refugees from Hong Kong have sought loans. However, the FERP does not provide funds to the voluntary agencies to assist in the reestablishment of these refugees after they have arrived in this country.

Mr. LONG. How are refugees selected to participate in this program?

Mr. KELLOGG. As I noted earlier, Mr. Congressman, those going to the school in Zambia are screened by the Zambian Government's Commission for Technical Education and Vocational Training and the principal of the school. The selection of those applying to go elsewhere is based on the proposed course of study and their admissibility in the training program.

Mr. LONG. What percent of the student body of the Nkumbi secondary school in Zambia are refugees supported by the program?

Mr. KELLOGG. Under the terms of the agreement which transferred the title of the school to the Zambian Government, roughly one-third of the school's capacity is to be available for refugee education—or 125 out of 300 places. At the moment there are some 80 students being supported by this program.

Mr. LONG. How many students are enrolled in college entrance curriculums, office management, agriculture, motor mechanics, and other courses (please specify courses and number of students supported by the project in each)?

Mr. KELLOGG. Although the school offers specialized training in business, mechanics, and agriculture, all 80-some-odd students now being supported by this project are pursuing straight academic courses leading to a secondary school completion certificate.

Mr. LONG. What information is available on where past beneficiaries of the program are now living and working?

Mr. KELLOGG. I'm afraid, Mr. Congressman, that I simply cannot give you a responsive answer to your question. Such followup information is not now available.

Mr. LONG. Has any manpower survey ever been performed to determine whether former refugee students are using their training? If so, what are the results? If not, why not?

Mr. KELLOGG. Again, Mr. Congressman, I'm in the awkward position of not being able to give you a substantive response. As I noted in answer to your earlier question, we don't have the followup information which would enable us to make such a survey. I would like to say in this regard that I share what I believe to be your purpose in asking these questions. I agree that such information would be invaluable both in evaluating the success of this program and in planning for the future. I wish to assure you and the committee that as my office takes over the administration of this project, we will endeavor to develop statistical information of this type.

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

We stand in recess until 2 o'clock.

OVERSEAS PRIVATE INVESTMENT CORPORATION

WITNESSES

BRADFORD MILLS, PRESIDENT
MARSHALL MAYS, GENERAL COUNSEL
JOSEPH PRICE, VICE PRESIDENT—INSURANCE
PETER DICKERSON, DEPUTY VICE PRESIDENT—DEVELOPMENT

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
Operating costs, funded:			
1. General administrative expenses	4,167	5,089	4,633
2. Investment encouragement fund (investment survey costs)	223	750	745
3. Insurance and guaranty program:			
(a) Insurance reserves (claims paid) no assets received	643	6,815	10,000
(b) Guaranty reserves (claims paid)		5,000	2,000
Total operating costs	5,033	17,654	17,378
Capital outlay, funded:			
1. Direct investment fund (loans)	5,200	19,415	28,900
2. Fixed assets and equipment	20	10	31
3. Other assets acquired	3,938	11,890	
Total capital outlay	9,158	31,315	28,931
Total program costs, funded	14,191	48,969	46,309
Changes in selected resources	9,573	17,092	19,200
Adjustment in selected resources	42,335		
Total obligations	66,099	66,061	65,509
Financing:			
Receipts and reimbursements from:			
Federal funds:			
Interest revenue from U.S. Treasury securities	−4,346	−3,000	−6,875
Cooley loan administration (reimbursements)	−115	−196	−111
Non-Federal Sources: Loan program:			
Interest income	−138	−960	−2,092
Insurance programs (fees and premiums)	−26,347	−26,315	−27,250
Guaranty programs (fees and premiums)	−2,368	−2,938	−4,347
Sale of Direct Investment Fund participations with recourse		−8,300	−15,700
Unobligated balance available, start of year:			
Drawing account with Treasury	−137,797	−88,262	−48,920
U.S. securities (par)	−65,960	−95,210	−122,700
Unobligated balance available, end of year:			
Drawing account with Treasury	88,262	48,920	80,286
U.S. securities (par)	95,210	122,700	154,700
Budget authority (appropriation)	12,500	12,500	72,500
Distribution of budget authority by account: Insurance and guaranty reserve account	12,500	12,500	72,500
Relation of obligations to outlays:			
Obligations incurred, net	32,785	24,352	9,134
Obligated balance, start of year	17,078	71,205	88,977
Obligated balance, end of year	−71,205	−88,977	−108,177
Outlays	−21,342	6,580	−10,066
Distribution of outlays by account:			
Insurance and guaranty reserve acount	643	11,815	12,000
Overseas Private Investment Corporation—operating account	−21,985	−5,235	−22,066

[1] Balances of selected resources are identified on the statement of financial condition.

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Personnel compensation:			
Permanent positions	2,181	2,507	2,616
Positions other than permanent	89	57	----
Other personnel compensation	20	----	----
Special personal services payments	120	312	168
Total personnel compensation	2,410	2,876	2,784
Personnel benefits: Civilian	182	270	354
Travel and transportation of persons	184	370	351
Rent, communications, and utilities	288	384	350
Printing and reproduction	47	111	98
Other services	680	1,060	659
Supplies and materials	22	18	37
Equipment	20	10	31
Investments and loans	5,200	19,415	28,900
Grants, subsidies, and contributions	223	750	745
Insurance claims and indemnities:			
Not covered by assets	997	11,815	12,000
Equivalent, received in assets	3,938	11,890	----
Total costs, funded	14,191	48,969	46,309
Change in selected resources, net	51,908	17,092	19,200
Total obligations	66,099	66,061	65,509

PERSONNEL SUMMARY

Total number of permanent positions	122	143	132
Full-time equivalent of other positions	11	12	12
Average paid employment	125	141	144
Average GS grade	10.0	10.0	10.0
Average GS salary	$16,347	$17,231	$17,651
Average salary, salary established by the President, Overseas Private Investment Corporation (83 stat. 805)	$29,153	$28,640	$29,731

Mr. PASSMAN. The committee will come to order. We shall consider this afternoon the budget request for the Overseas Private Investment Corporation. We have as witnesses Hon. Bradford Mills, President, Overseas Private Investment Corporation and supporting witnesses.

I believe, Mr. President, that you had requested in fiscal 1973, $85 million, but the Congress in its wisdom only appropriated $12,500,000 under a continuing resolution.

Mr. MILLS. That is correct.

Mr. PASSMAN. This year you are requesting $72,500,000.

Mr. MILLS. Correct.

Mr. PASSMAN. Of course, the sins of the past shouldn't be charged to you, Mr. Mills. This agency is actually not a new one. When did the previous organization start

Mr. MILLS. 1948 under the Marshall plan.

OPIC'S FINANCIAL CONDITION

Mr. PASSMAN. If we are going to be fair to you as the President of the Overseas Private Investment Corporation, and also in all fairness to the taxpayers, I think we have to make a very positive and definite record. Would you place in the record a table showing the total amount of income received by not only OPIC, but your predecessor agencies, indicating the amount they received per year in collections from insurance sold, then in another category the amount appropriated by the Congress for the same years, and then in a third category the total amount of administrative expenses incurred from 1948 to 1972 inclusive. Then by subtracting the administrative expenses from the amount of funds received, it will immediately show the net loss or the net profit for the time that the agencies operated, because we are charging to you or the present agency for all of the operations of the past. I think this is the best way to make a record.

If you will, I think you should also show the amount of claims you have paid during this same period of time. At one time you had an extremely favorable picture, but that situation has reversed itself in the past few years.

Also state for the record the amount of claims pending and the potential claims which could be presented to OPIC at some future time. If we are to get OPIC on a sound, operating basis, then it is going to be necessary to state to the committee, to the Congress, and to the public that during the 25 years of operation we have had a net loss of this figure, but had we operated in the past as we are presently operating and we expect to operate in the future, it would have been a different story. Do you agree with me?

Mr. MILLS. Yes, we have some of those figures now.

Mr. PASSMAN. Not some of them. We want the entire picture. I spent considerable time with you in the past. I have a lot of respect for you. I know you want to put your best foot forward but at the same time you want to be fair with the committee. Let us look at Chile. We know we have had tremendous losses in that country. We know we have a lot of other claims pending that we are going to have to pay. It is just a question of finally agreeing upon the amount and meeting the payment. As far as I am concerned, rather than defer these payments over a period of years I think we should meet this obligation. I think it would be much better to ask for a supplemental. Since we absolutely must pay it, pay it and get it behind us.

I think you had another claim in which you had reached an agreement. The money is due but you are actually negotiating some kind of an installment system. Help us make a complete record. I don't think we are unreasonable in that request?

Mr. MILLS. No.

Mr. PASSMAN. Let us have these figures for the record.

Mr. MILLS. We will be pleased to do that, Mr. Chairman.

[The information follows:]

SUMMARY OF INSURANCE FEES, APPROPRIATIONS, CLAIM PAYMENTS, CLAIM RECOVERIES AND ADMINISTRATIVE EXPENSES, FISCAL YEAR 1949 THROUGH MAR. 31, OF FISCAL 1973

Fiscal year	Insurance fees	Appropriations	Claims payment	Claims recovery	Administrative expense
1949	$16,763				
1950	172,609				
1951	205,663				
1952	277,584				
1953	216,680				
1954	205,662				
1955	235,687				
1956	330,873				
1957	416,515				
1958	654,482				
1959	1,367,334				
1960	1,356,227				
1961	1,672,830				
1962	2,298,860	$27,861,484			
1963	2,926,017	30,000,000			
1964	4,674,441				
1965	7,767,432				
1966	9,867,673		$205,947	$193,629	
1967	9,117,164		128,247	97,471	
1968	14,546,713		327,304	264,838	
1969	19,721,714		2,839,898		
1970	21,537,152	37,500,000			[1] $962,612
1971	24,053,861	18,750,000	345,230	349,899	[1] 1,747,876
1972	26,828,962	12,500,000	1,355,015	1,334,923	[1] 2,784,464
1973 through Mar. 31	19,139,785	12,500,000	18,075,999	164,501	[1] 1,851,188
Total	169,618,683	[2] 139,111,484	23,277,640	2,405,261	[3] 7,346,140
Income taken away	[4] (50,000,000)				
Total	119,618,683				

[1] Estimate.
[2] $44,111,484 of appropriations allotted by Board of Directors to guaranty Reserve.
[3] Administrative costs are not available prior to fiscal year 1970 as AID and other predecessor agencies did not segregate its administrative costs against specific programs.
[4] Insurance fees transferred by Congress to AID housing guaranty program.

Note: As of Mar. 31, 1973, OPIC had 17 claims pending totaling approximately $121,300,000. OPIC also had 8 situations which might be considered potential claims involving approximately $51,500,000 of liability.

General Statement

Mr. Passman. I assume you have a statement you would like to make to the committee? If so, please proceed with the statement.

Mr. Mills. Mr. Chairman and members of the committee, I appreciate this opportunity to report to you on the programs and progress of the Overseas Private Investment Corporation (OPIC). In the 2 years that this Government Corporation has been managing insurance and finance programs for selectively encouraging U.S. private investments in developing countries. OPIC has solved many of the problems it inherited and introduced new methods of operating its programs.

In evaluating any program, be it public or private, three basic questions should be answered. First, is there a need for it? Second, is it doing what it is supposed to do? Third, will it continue to serve its purpose in the future? In this statement I will summarize factual evidence responsive to each of these questions.

The need for OPIC is well established.

(1) World markets are changing. The developing countries are the growth markets of the future. They contain more than three-fourths of the population of the world. In order to compete in these markets, U.S. companies often have no realistic alternatives to investing in them.

(2) The return to the United States from foreign investment is producing a growing surplus in long-term capital accounts of our international balance of payments. In 1971, net of returns of dividends, interest and fees to the United States from nonpetroleum investment in the developing countries, OPIC's field of activity, were nearly $390 million.

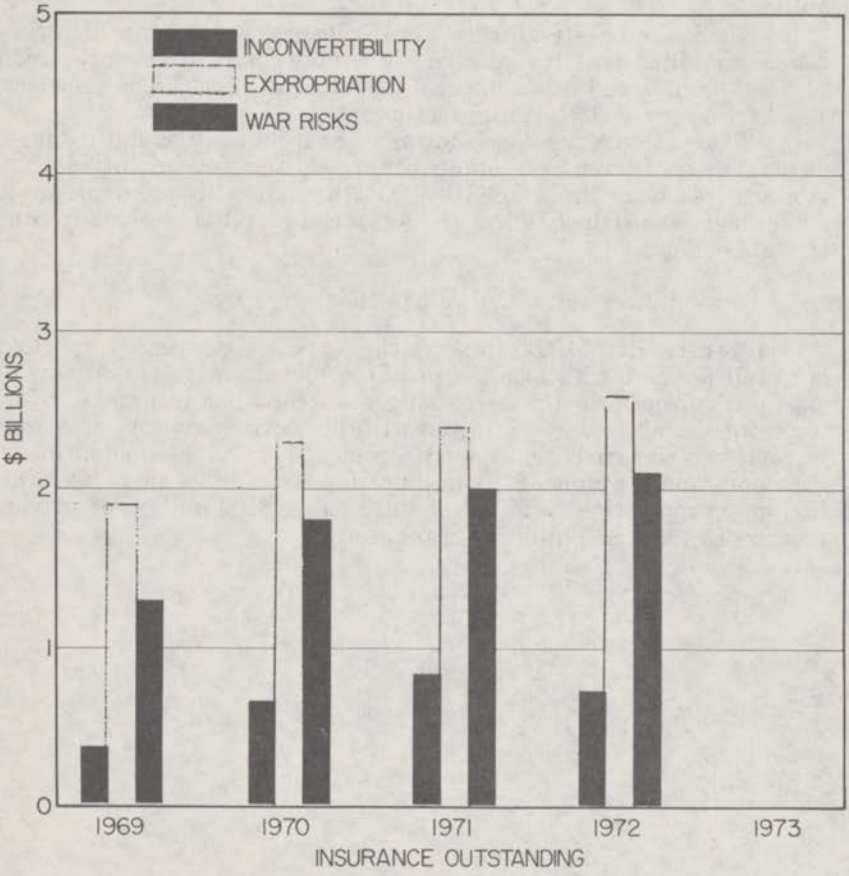
(3) The United States, formerly self-sufficient in most raw materials is becoming increasingly dependent in a more competitive world upon sources of fuels and other mineral resources in Asia, Latin America, and Africa, where OPIC programs operate.

(4) There is a tremendous shortage of capital, skills, and management abilities in the developing countries, and foreign private investment, such as encouraged by OPIC, enables these countries to make the most productive use of substantial investment made by foreign aid donors.

WHAT OPIC DOES

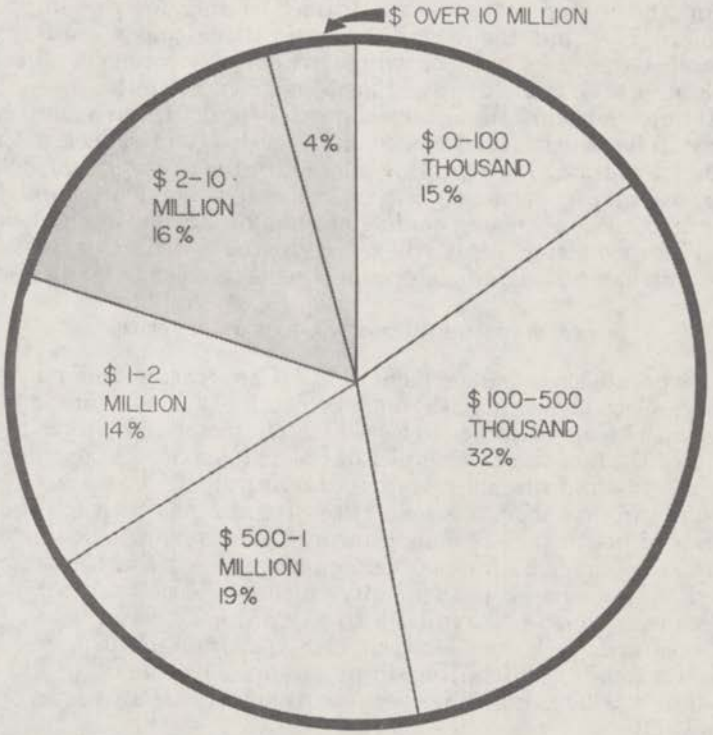
Congress created OPIC to serve these needs. Its primary function is to sell political risk insurance to U.S. private investors on new or expanded projects in the developing countries. The insurance covers the unpredictable risks of inconvertibility, expropriation, and war, revolution or insurrection. As of December 31, 1972, the current insurance portfolio contained $764 million in convertibility risks, $2.1 billion in expropriation risks (after subtracting $400 million of private reinsurance) and $2.1 billion in war risks.

GROWTH OF CURRENT OPIC INSURANCE PORTFOLIO



Of the projects it has insured, 80 percent represents investments of under $2 million.

PERCENT OF INVESTMENT TRANSACTIONS INSURED BY SIZE 1972



OPIC also assists in financing projects in the less developed countries primarily through guaranties of loans from U.S. institutional lenders or direct loans. OPIC's financing is extended on commercial terms, and the agency often takes convertible debentures to share in the profits and to maintain its financing services on a self-sustaining basis. As of December 31, 1972, guaranteed loans totaled $194 million in 21 projects. The direct loan portfolio, funded from the Corporation's $40 million capital, was $15.4 million in 19 projects as of the same date.

In addition, OPIC offers preinvestment financing to U.S. agribusiness companies and other enterprises to encourage them to investigate and pursue sound project opportunities in less developed countries. In fiscal 1972, about $350,000 was committed toward surveys by 13 firms, and about $550,000 is planned for fiscal 1973.

To encourage small- and medium-size investors to take an active role in LDC's, OPIC is now offering a special project development program and giving priority in its direct lending for this important segment of U.S. indutry. Smaller firms with adequate management and capital resources can contribute to our development objectives even though their scale of investment capacity is limited.

OPIC also administers an experimental local capital mobilization program in five Latin American countries called the Productive Credit Guaranty Program. Through this pilot effort the Corporation is determining whether government guaranties can make more local bank lending accessible to poor people for farming and business development. This promising idea, which originated in the Congress, will require further testing to determine the best method of operation.

WHAT OPIC HAS ACCOMPLISHED IN 2 YEARS

The corporate-style management of OPIC, operating under a statute stressing selectivity and risk management, has made fundamental changes in the operating policies which characterized previous programs. For the first time, principles of risk management long employed by the private insurance industry have been applied.

Our goal in operating the insurance program has been to establish a pooling of political risks among insured investors. The pool is being built up from funds paid in as premiums by the users of the program. Through wise management and investment policies, the pool can be increased over time to be available to pay ordinary claim losses.

The insurance program, between 1948 and June of 1973, will have paid to it a total of $180 million in premiums. About one-third of that total—nearly $60 million—has been realized since OPIC began operations in 1971.

An additional $40 million in gross revenues from premiums and fees is anticipated for the next fiscal year. These funds, minus operating costs, also will go into OPIC's reserves to pay claims.

When OPIC took over management of the insurance program in January 1971, it was confronted with over $440 million in potential claims on old contracts. At that time, its insurance reserve amounted to only $85 million. Today those figures are substantially reversed. During the first 2 years the insurance reserve has been built up to almost $126 million, with an additional $24 million of earnings not yet allocated. OPIC has settled 18 claims, more than twice the number of claims paid during the first 20 years of the program. Of these, 13 were resolved by OPIC cash settlements to insured investors, totaling over $14 million; three were settled by OPIC guaranties which enabled the investors to receive cash payments (OPIC's present liability excluding interest is $70.8 million); and two were settled by host Government commitments, backed by OPIC guaranties with a current value of $25.3 million excluding interest, for installment settlements.

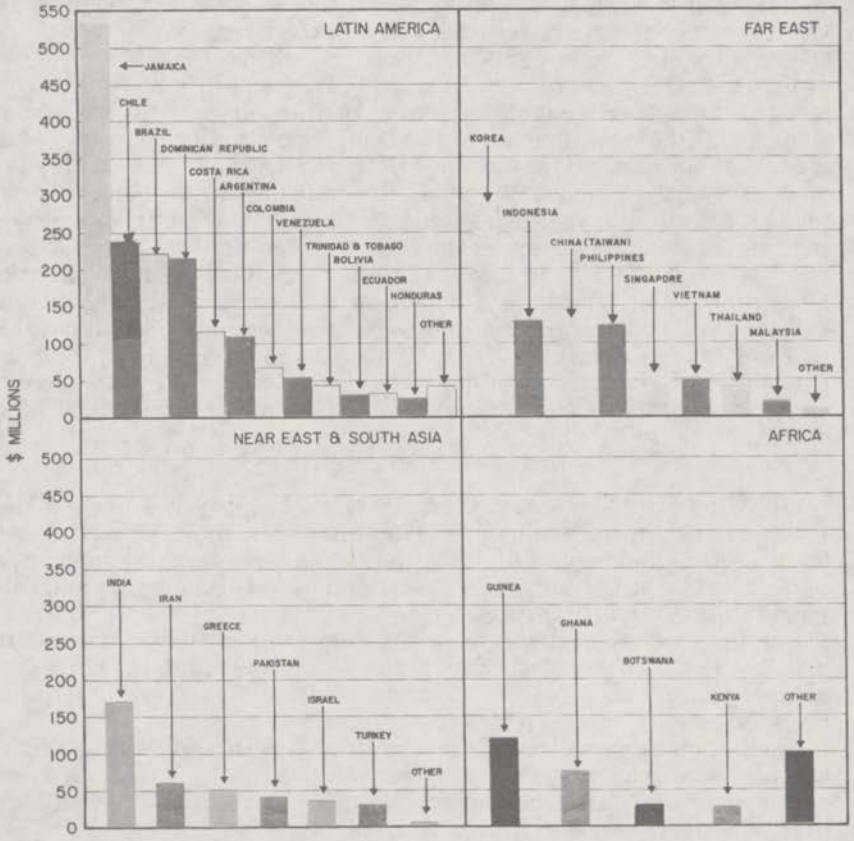
One claim of $154 million was denied, and is in arbitration. The remaining claims, on which OPIC has not determined liability, total $113.7 million.

We have taken very seriously our obligation to follow the congressional directive to conduct insurance operations with due regard to principles of risk management. In carrying out this mandate, management has:

Reinsured with Lloyd's of London 50 percent of OPIC's expropriation risks in approximately 80 percent of the countries in which we have expropriation coverage outstanding, or where we are currently offering such coverage to U.S. investors. In the remaining 20 percent of the countries, the agreement provides a smaller percentage of reinsurance within a maximum per country limit of $14 million;

Placed limits on growth of exposure in countries of heavy concentration;

95 PERCENT OF OPIC EXPROPRIATION COVERAGE EXPOSURE



Insisted that the investor take part of the risk through special policies for large and/or sensitive projects, and through a first loss deductible;

Increased premiums and instituted multiple premium schedules reflecting the form and field of investment;

Specified coverage requirements to avoid adverse selection of risk against the Corporation;

Requested multinational participation of certain large and sensitive projects.

OPIC has introduced many new dimensions to the insurance and finance programs. In addition to enlisting the resources of the private London market to reinsure a portion of our expropriation risks, we are now working with the U.S. private insurance industry to determine in what ways they, as a group or as individual firms, can most effectively share part of the expropriation liabilities which OPIC underwrites, OPIC also has adapted its programs to cover new modes of investment, such as construction and other technology contracts.

OPIC now is negotiating with insurance agencies of other developed nations to establish an investment insurers union. The union would provide international conciliation, mediation, and appraisal services for member agencies, and would facilitate reinsurance pooling by OPIC with counterpart agencies of other countries.

Probably the most significant new dimension that has emerged from our first 2 years of operation is OPIC's role in resolving investment disputes, thereby avoiding government-to-government confrontation. As a U.S. Government corporation, with a majority of its board members from the private sector, OPIC is able to act as a bridge between foreign governments and U.S. companies in developing commercial solutions to political problems. In addition, OPIC's expertise in international financing enables us to offer new solutions to expropriation situations. In several claims OPIC has been able to take an expropriation problem to which an investor reacts with characteristic fear, and translate it into a business arrangement which presents an acceptable solution for both the host government and the U.S. investor. In Bolivia, for example, OPIC resolved the expropriation of two U.S. companies clearly improving relations between the United States and Bolivia.

OPIC'S SELECTIVE CRITERIA

OPIC's distinctive characteristic is the selectivity it applies to investments it insures or finances. This involves a series of qualitative underwriting judgments of the invstment's potential developmental impact on the host country, its effects upon the U.S. economy, and its vulnerability to political risks.

Foreign private investment can be a highly beneficial contributor to both the developing nation and to the U.S. economy, but OPIC recognizes that not all projects will meet the tests. Thus, it evaluates each proposal against criteria which require that:

Each project be approved by the host government before OPIC will insure or finance it;

The investor demonstrate how the proposed project will benefit both the host country and the U.S. economy;

OPIC refuse to assist "runaway" projects;

Ownership and financing structure, dispute settlement terms and other features of proposed projects be satisfactory to OPIC;

Ways are devised to help reduce potential political vulnerability and to improve the project's contributions to host country development and the U.S. economy; and

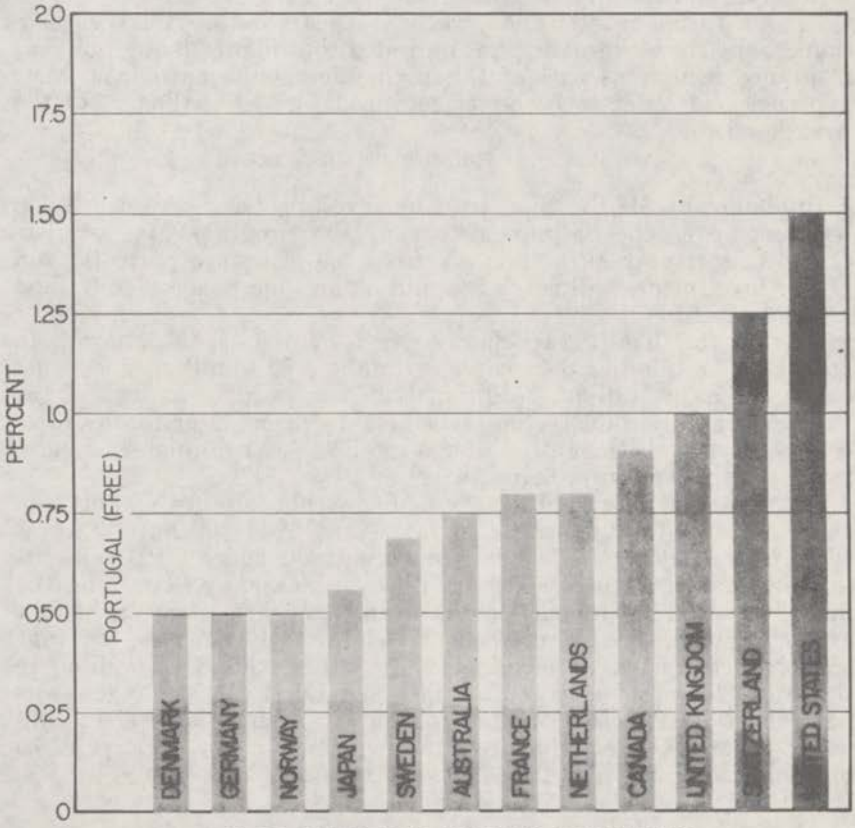
Through its contract terms, OPIC seek to assure responsible and prudent behavior by all concerned, thereby minimizing political risks.

Violation by the investor of any of OPIC's covenants, or taking actions that would create political problems and provoke expropriation, can result in refusal by OPIC to pay a claim.

FOREIGN PROGRAMS SIMILAR TO OPIC'S

OPIC today is no longer unique. At least 15 other nations have set up insurance programs to stimulate private investment in the less-developed countries. The coverage offered is similar to OPIC's, but their premium rates and terms indicate policy decisions to subsidize investment insurance. For example, the Japanese and German fees are about one-third of OPIC's premium rate.

OPIC INSURANCE FEES COMPARED WITH OTHER NATIONS



FEES CHARGED BY DEVELOPED COUNTRIES
FOR CURRENT INVESTMENT INSURANCE

Recently, the Commission of the European Economic Community announced a proposal to establish a European investment insurance scheme to fill gaps between the national programs of European governments in insuring European-based private investors going into the LDC's.

The significance of the proposal was pointed out by the Commission in its introduction:

"Since investment guaranties can favor the commercial growth of the Community, and since most of the competing industrial and commercial powers have had broad recourse to this form of insurance, the introduction of a Community guaranty would place all of the member countries of the Community in a position equivalent to that of its principal competitors."

In addition, the Japanese and the French have announced special programs to encourage their investing companies to seek out and develop foreign sources of needed raw materials. The Japanese program includes preinvestment assistance and long-term, low-interest loans to help finance the mining ventures.

Supplementing insurance and export credit programs, the Japanese have two public corporations to promote overseas exploration and development of mines and oil/gas fields. The French are developing a program to diversify sources of supply for a number of basic raw materials through intensified worldwide exploration by their nationals, and the Government has indicated that it will use its political insurance facility as part of this plan. We should learn from their experience in order to be better equipped for the challenges of the next decade.

WHAT THE INSURANCE PROGRAM COSTS

Premiums of $180 million paid by investors have exceeded claim payments over the 25-year history of the program. We estimate OPIC's fiscal year 1973 revenues from the insurance portfolio and OPIC investments will reach $34 million and increase to $40 million in fiscal year 1974.

On the other hand, gross claim losses to March 15, 1973, have been only $23.2 million with recoveries totaling $2.4 million for a net outlay of $20.8 million. Additional recoveries are expected in the future. In addition OPIC has settled claims through guaranties presently carrying contingent liabilities totaling $96.1 million, excluding interest, spread out over many years.

No one can state with absolute confidence that the existing portfolio can be managed at no cost to the taxpayer. Proof will have to await the expiration of some 2,000 long-term contracts which OPIC inherited. Important evidence can be obtained, however, by examining the financial record of the completed insurance contracts. Over the history of the insurance program, about $2.9 billion of insurance coverage has been completed or terminated. Investors paid $37.3 million in premiums to purchase this insurance and OPIC or its predecessors paid about $20.8 million of that to liquidate claims under the terminated coverage. Thus the program registered a net gain of $16.5 million before administrative costs on the terminated coverage.

OPIC APPROPRIATION REQUEST FOR RESERVES

Unfortunately, not all the funds paid by insured companies are still available to OPIC. OPIC, therefore, is requesting an appropriation of $72.5 million in fiscal year 1974 to restore to the insurance program's reserve the income which has been diverted from the program to other uses by actions of the Congress.

This request represents the balance of the $85 million sought last year, of which the House-Senate conference committee tentatively approved half, or $42.5 million, but which was reduced to $12.5 million in the process of substituting a continuing resolution for a regular appropriation act.

The nearly $180 million in premiums paid since 1964 should have been kept and invested to meet losses suffered by the contributors to the pool, the insured investors. Instead, none of the premium income could be invested under the laws governing OPIC's predecessor agencies. Further, when OPIC was created, $50 million in cash insurance premiums was transferred by Congress to the AID housing guarantee program.

The sum of these drains on OPIC's reserve is approximately $85 million:

	Millions
Insurance premiums transferred to AID housing guaranty program	$50.0
Interest lost on insurance premiums because they could not be invested between 1948 and 1969	16.5
Interest lost between 1969 and 1973 on the $50 million transferred to AID and on the previously lost interest	17.4
Total	83.9

Despite a determination to hold down the fiscal year 1974 budget requests, the administration has again submitted the OPIC reserve-restoration request to Congress because—

> The political risk insurance portfolio has more than doubled since 1967, while the insurance reserve has been reduced by Congress from over $300 million in 1967 to the present $126 million.
>
> Against this $126 million reserve, we have already issued guarantees with a present liability of $96.1 million, excluding interest, to companies expropriated in Chile and Bolivia. While we expect the Governments involved to continue to honor and eventually discharge their contractual obligations to pay, sound business practice requires us to recognize these guarantees as liabilities.
>
> Users and potential users must be assured that OPIC's insurance program runs on a businesslike basis as Congress intended. If an insured investor suffers a large loss, he should be able to count on payment in accordance with the terms of his contract instead of the prospect of a long wait for passage of a special appropriation bill by the Congress.

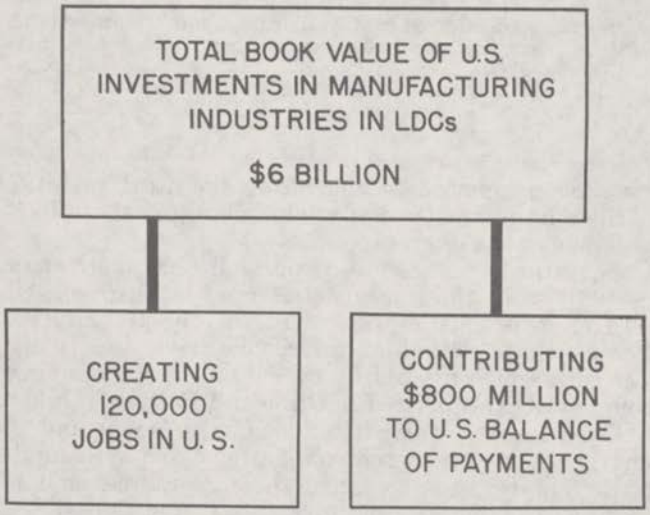
CONCLUSIONS

The administration and the OPIC Board believe this appropriation request will be in the best interests of the United States because:

1. OPIC PROGRAMS HELP THE U.S. ECONOMY BY CREATING JOBS IN THE UNITED STATES, IMPROVING THE U.S. BALANCE OF PAYMENTS, AND ASSISTING U.S. EXPORTS

Many studies have demonstrated the positive effects of foreign investment. One made by Prof. Robert Stobaugh of the Harvard Business School indicates that direct private manufacturing investment in the developing countries has contributed a net increase in U.S. domestic employment of 120,000 jobs and a net benefit to the U.S. balance of payments, including export benefits of more than $800 million.

SIZE OF TOTAL U.S. INVESTMENTS IN LDC MANUFACTURING INDUSTRIES/ AND NET IMPACT ON U.S. BALANCE OF PAYMENTS AND JOBS IN 1972



Source : Stobaugh Report.

This is only a partial estimate of the benefits to the United States of OPIC's investment encouragement programs since it does not include extractive and service industry investments, which have almost wholly positive effects on the U.S. economy. Also it does not take into account OPIC's selectivity in screening out projects that might have a negative effect on the U.S. economy.

2. OPIC-ASSISTED INVESTMENTS BENEFIT THE LESS-DEVELOPED COUNTRIES

Foreign private investment is generally recognized as beneficial to development. This is evidenced by the extensive incentives offered by the Governments of developing countries to attract foreign investors. A study commissioned by the Development Assistance Committee of the OECD, to be published this year, shows that foreign investment plays a significant role in the economies of most developing countries, and that an even larger role will be needed if these countries are to make significant progress in reducing poverty. OPIC's selecivity helps assure developing countries that the U.S. investments encouraged by OPIC will have a beneficial development impact.

3. OPIC PARTICIPATION CAN HELP SOLVE INVESTMENT PROBLEMS AND AVOID GOVERNMENT-TO-GOVERNMENT CONFRONTATION IN INVESTMENT DISPUTES

Our experience shows that it is the insured investor who acts most responsibly. The uninsured investor having no protection is the most likely to escalate an investment problem into a confrontation between respective Governments. Existence of OPIC coverage in an expropriation situation helps to change an emotionally charged atmosphere into more rational one where the investor can negotiate compensation issues under businesslike conditions. We have learned that investment dispute settlement requires case-by-case, pragmatic approaches, based on a capacity to establish the facts, evaluate the objectives of the host Government and investors, and compose differences in businesslike discussions which recognize the essential interests of the parties involved. OPIC has developed a unique expertise to perform this service.

4. OPIC CLAIMS PAYMENTS ARE MADE TO U.S. FIRMS—NOT FOREIGN GOVERNMENTS

OPIC is not foreign aid. Its clients are U.S. citizens and taxpayers, and all claims are paid directly to them for insured losses they have suffered.

5. THE 25-YEAR FINANCIAL HISTORY OF THE INVESTMENT INSURANCE PROGRAM SHOWS THAT OPIC PROGRAMS HAVE NOT BEEN A SUBSIDY TO U.S. INVESTORS

Users of OPIC's programs have paid into the U.S. Treasury substantially more than has been paid out for political risk claims. Risk management policies, which OPIC is implementing on new insurance contracts, are designed to make the OPIC-written insurance portfolio self-sustaining, except in the most unlikely situations involving simultaneous expropriations in a number of countries without effective compensation, or wars in a number of nations.

6. OPIC IS IMPROVING ITS POLICIES AND PROGRAMS TO MEET THE CHANGING NEEDS OF THE INVESTORS AND THE U.S. GOVERNMENT

U.S. private participation in reinsurance of OPIC contracts is already a fact, and there are indications that the U.S. insurance industry may be interested in taking a part in direct expropriation risk under-

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writing. We are seeking to develop an effective international reinsurance plan involving the investment insurance agencies of other governments. We are consulting with policymaking departments about OPIC's role in meeting our country's foreign trade and investment needs, including reliable, long-term sources of raw materials.

With the emergence of a global market economy, governments and multinational companies are increasingly and inevitably interrelated. The actions of each bear upon the other, and frictions may be generated. The question which we must consider is to what extent, if any, the U.S. Government should attempt to influence these relations. We believe that there must be a continuing growth and strengthening of government-private cooperation and that OPIC's programs represent a pragmatic advance in this relationship.

JUSTIFICATION MATERIAL

Mr. PASSMAN. Thank you for you statement. We will insert the justification material in the record at this point.

[The material follows:]

OPIC APPROPRIATION REQUEST FOR RESERVES

OPIC requests appropriation of $72.5 million in fiscal year 1974 to increase its reserves. This request represents the balance of the $85 million sought last year, of which the House-Senate Conference Committee tentatively approved half, or $42.5 million, but which was reduced to $12.5 million in the process of substituting a continuing resolution for a regular appropriation act.

JUSTIFICATION OF REQUESTED AMOUNT

This appropriation would restore to the insurance program's reserve the amounts which have been diverted from the program to other uses by actions of the Congress.

Insured U.S. private investors have paid nearly $180 million in premiums over the 25-year history of the insurance program. This pool of funds should have been kept and invested to meet losses suffered by the contributors to the pool, the insured investors. Instead, none of the premium income could be invested under the laws governing OPIC's predecessor agencies, and when OPIC was created $50 million in insurance premiums were transferred by Congress to the AID housing guaranty program.

The sum of these drains on OPIC's reserve is approximately $85 million:

	Millions
Insurance premiums transferred to AID housing guaranty program	$50.0
Interest lost on insurance premiums because they could not be invested between 1948 and 1969	16.5
Interest lost between 1969 and 1973 on the $50 million transferred to AID and previous interest lost	17.4
Total	83.9

JUSTIFICATION FOR ACTION BY THIS SESSION OF CONGRESS

Despite a determination to hold down the fiscal year 1974 budget requests, the administration has again submitted the OPIC reserve-restoration request to Congress because:

The political risk insurance portfolio has more than doubled since 1967, while the insurance reserve has been reduced by Congress from over $300 million in 1967 to the present $126 million.

Against this $126 million reserve we have already issued guaranties with a present liability of $96.1 million, excluding interest to companies expropriated in Chile and Bolivia. While we expect the Governments involved to continue to

honor and eventually discharge their contractual obligations to pay, standard accounting practice requires us to recognize these guaranties as liabilities.

Users and potential users must be assured that OPIC's insurance program runs on a businesslike basis as Congress intended. If an insured investor suffers a large loss he should be able to count on payment in accordance with the terms of his contract instead of the prospect of a long wait for passage of a special appropriation bill by the Congress.

EFFECT OF INCREASED RESERVES ON OPIC'S CLAIM-SETTLEMENT DECISIONS

It is sometimes argued that increased reserves would cause OPIC to be too generous in claim settlements. This reason might be sound in predicting the behavior of a normal public agency which is usually under pressure to spend its annual appropriated funds before the end of the fiscal year. But OPIC, as a corporation, is constitutionally biased in the opposite direction. It presents itself to the Congress on the basis of its overall balance sheet. Therefore, management constantly strives for tighter risk management, greater earnings, and smaller outlays.

Among the many measures taken to achieve this position is the current program with Lloyd's syndicates which are reinsuring 50 percent of OPIC's expropriation coverage in more than 80 percent of the countries where such coverage is available. OPIC also has been working with the American insurance industry on a joint underwriting proposal.

Finally, OPIC claim settlements must conform to the contractual rights and facts of each case, not to the discretion of management. Where substantial differences arise issues may be submitted for independent arbitration. OPIC is also audited annually by the General Accounting Office.

In short, increased reserves will not make OPIC "soft." Rather, increased reserves would make OPIC more businesslike.

ADMINISTRATIVE BUDGET

OPIC's administrative obligations are wholly funded from its own earnings. Administrative costs were $4,190,000 in fiscal year 1972; $5,089,000 is estimated for fiscal year 1973; and $4,633,000 is proposed for fiscal year 1974.

The decrease in administrative costs of $456,000 is entirely related to the expectation that claims-review and settlement costs, including outside legal counsel and auditors, should peak in fiscal year 1973 and decrease in fiscal year 1974. The timing of this type of expenditure is only partially controllable by OPIC and there is now a strong probability that obligations in this category estimated for fiscal year 1973 will be shifted to fiscal year 1974.

OPIC's full-time staff at the beginning of fiscal year 1974 will be about 132 persons compared with 133 at the beginning of fiscal year 1973. In fiscal year 1973 we had budgeted a level of 143. However, through reorganization we have operated with a full-time staff which has averaged slightly less than 130 persons and we intend to continue to hold our staffing levels. While we have managed to control the numbers of personnel, the dollar level of our personnel costs continues to rise because of pay raises authorized for Federal employees.

In summary, while OPIC's personnel costs are budgeted to increase due to authorized pay raises, such cost increases should be offset by reductions in claims review and settlement costs and the final overall budget results in a decrease of $456,000. However, it should be understood that costs required to administer and adjust claims and to manage and dispose of claims related assets cannot be accurately predicted in advance either in terms of dollar levels or timing. Since such costs are a significant part of OPIC's administrative budget, variations due to such items may cause OPIC to materially exceed or be under the administrative budget submitted for fiscal year 1974.

PREINVESTMENT ASSISTANCE

For fiscal year 1974 OPIC has budgeted $745,000 for preinvestment assistance. This is approximately the same level as in fiscal year 1973. Funds to operate this program come out of OPIC's operating revenues. Experience to date indicates that these expenditures represent a sound use of corporation resources.

PROJECTED PROGRAM VOLUMES FOR FISCAL YEAR 1974

In projecting budgeted revenues and costs and estimated financial statements for inclusion in OPIC's annual budget presentation, it is necessary to estimate program volumes. The attainment of these estimated results is subject to a multiplicity of factors outside of OPIC's control such as the political stability of the LDC's, the general availability of financing, the stage of sponsor negotiations with partners, United States and foreign fiscal policies, the carryover of proposed project financing from the prior year, et cetera.

Projected program volumes upon which the fiscal year 1974 budget is based are as follows:

Political risk insurance.—Insured investments of $275 million.

Financial guaranties.—Guaranteed loans of $50–75 million.

Direct investment fund.—Net lending of $15 million.

EXHIBIT A

OVERSEAS PRIVATE INVESTMENT CORPORATION

INCOME AND EXPENSES

[In thousands of dollars]

	Actual fiscal year 1972	Budget submission	
		Fiscal year 1973	Fiscal year 1974
Fees:			
Political risk insurance	26,310	26,315	27,220
Insurance application fees	37	15	30
Investment guaranty fees	2,368	2,923	4,347
Total fees	28,715	29,253	31,597
Interest and other revenue:			
Direct investment interest	138	960	2,092
U.S. obligations	4,346	3,000	6,875
Cooley loans	115	196	111
Total interest and other revenue	4,599	4,156	9,078
Total revenues	33,314	33,409	40,675
Expenses:			
Administrative obligations [1]	4,190	5,089	4,633
Preinvestment program	223	750	745
Total expenses	4,413	5,839	5,378
Total earnings available for reserves	28,901	27,570	35,297

[1] Exhibit B.

EXHIBIT B

ADMINISTRATIVE OBLIGATIONS

[In thousands of dollars]

	Actual, fiscal year 1972	Budget submission	
		Fiscal year 1973	Fiscal year 1974
Expense components:			
1. Personnel cost:			
Direct	2,290	2,564	2,616
Contract	120	312	168
Total	2,410	2,876	2,784
2. Personnel benefits	182	270	354
3. Travel and transportation	184	370	351
4. Occupancy cost	230	233	237
5. Communications	58	151	113
6. Printing and reproduction	47	111	98
7. Supplies	22	18	37
8. Other costs	1,057	1,060	659
Total	4,190	5,089	4,633

EXHIBIT C (REVISED)

PRO FORMA BALANCE SHEET

[In thousands of dollars]

	Fiscal year ended	
	June 30, 1973	June 30, 1974
Assets:		
Cash	$2,969	$6,235
U.S. obligations	[1] 122,700	[1] 154,700
Appropriated insurance and guaranty fund	110,993	171,493
Direct investment fund	23,685	10,485
Subtotal	260,347	342,913
Other current assets	2,600	2,600
Direct investments	16,315	29,515
Claims related assets	[2] 16,098	[2] 16,098
Assigned payments on guaranties issued	44,071	44,071
Fixed assets	144	175
Sundry assets	483	483
Total assets	340,058	435,855
Liabilities:		
Unearned income (U.S. securities)	3,000	3,000
Accounts payable and accruals	3,000	3,000
Payment advances on guaranties	[3] 43,821	[3] 43,821
Advance payments	1,000	1,000
Fees paid but not earned	12,500	12,500
Total liabilities	63,321	63,321
Reserves:		
Insurance reserve	132,042	[4] 194,542
Guaranty reserve	70,000	68,000
Total reserves	202,042	262,542
Net worth:		
Capital stock	40,000	40,000
Retained earnings	34,695	69,992
Total net worth	74,695	109,992
Total liabilities, capital and reserves	340,058	435,855

[1] Amount invested in U.S. obligations from fees, revenues, advance payments and fees paid but not earned. Only funds collected from July 1, 1969 are available for this purpose. Appropriated funds and funds appropriated for direct investments may not be invested.

[2] Value assigned to claim related assets. When assets are disposed of the difference between the value assigned and the value received is recorded as profit or loss.

[3] Reflects future assets which will be received and future liabilities which OPIC is obligated to pay as a result of guaranties of claims settlements issued by OPIC to Dec. 31, 1972.

[4] Assumes receipt of the $72,500,000 appropriation requested for fiscal year 1974.

EXHIBIT D (REVISED)

STATEMENT OF CHANGES IN INVESTMENT OF U.S. GOVERNMENT

[In thousands of dollars]

	Capital	Insurance reserve	Guaranty reserve	Retained earnings	Total
Balances, July 1, 1972	40,000	114,357	75,000	19,125	248,482
Appropriation by Congress		12,500			12,500
Net income				27,570	27,570
Transfers from retained earnings		12,000		(12,000)	
Losses on claims settlements [1]		(6,815)	(5,000)		(11,815)
Balance, July 1, 1973	40,000	132,042	70,000	34,695	276,737
Appropriation by Congress [2]		72,500			72,500
Net income				35,297	35,297
Losses on claims settlements [1]		(10,000)	(2,000)		(12,000)
Balance, June 30, 1974	40,000	194,542	68,000	69,992	372,534

[1] Estimated losses used in projecting cash outlays.

[2] Assumes receipt of $72,500,000 appropriation requested for fiscal year 1974.

Mr. PASSMAN. I yield to Mr. Shriver.

LEVEL OF RESERVES

Mr. SHRIVER. You told us last year if you could get OPIC's reserves to around the $200 million level, that would probably be sufficient so you would not have to come back here for annual appropriations. Is this figure still correct?

Mr. MILLS. Yes, it is Congressman. We are hoping to get this figure to $200 million. The request we are making this year is based on the request we made last year less the $12.5 million received from Congress, which would boost the reserve to about $200 million. As I stated last year this will simply restore cash premiums the programs earned before OPIC was established, and we would not be back any more, barring of course a catastrophic loss.

AVAILABILITY OF FUNDS

Mr. SHRIVER. Has the $12.5 million amount been decided upon?

Mr. MILLS. If I understand correctly, it has been decided upon, and it will be given to us. We understand the final continuing resolution to be equivalent to a regular appropriation of these reserves to remain available until expended. It should have been entered on the books.

Mr. PASSMAN. If the gentleman will yield? Yes, it is in the continuing resolution. It is locked in. That is the amount that the House and Senate committees finally agreed upon and it is locked in $12,500,000.

Mr. SHRIVER. There was some question.

Mr. MILLS. There was some question whether it was available. I understand as of Friday it was made available to us.

Mr. SHRIVER. That leaves them a balance of?

Mr. MILLS. $72.5 million.

Mr. SHRIVER. The amount you are requesting?

Mr. MILLS. That is correct.

KENNECOTT SETTLEMENT

Mr. SHRIVER. Could you tell us about the compromise that was reached last December between OPIC and Kennecott Copper?

Mr. MILLS. I would be pleased to. I would like to have my general counsel, Mr. Mays, who negotiated and worked on this settlement, to report.

Mr. MAYS. Yes, Congressman, Braden Copper Co., a subsidiary of Kennecott, loaned $80 million to the El Teniente Mining Co. in Chile AID had insured, the $80 million principal plus interest up to $84.6 million. There was no insurance on Kennecott's equity in this mine. Under the terms of the contract with AID, which was written in 1967, the debt investment was insured against expropriation. The mine was expropriated by the Government of Chile by constitutional amendment. The Government of Chile nevertheless had continued to make payments on this debt, but Kennecott's claim against OPIC was for the full amount of the remaining balance. At the time we reached that settlement with Kennecott, this amounted to $76 million, and the interest rate of the loan was 5¾ percent.

Because of the low interest rate Kennecott was willing to make a settlement for considerably less. They discounted the loan to $66.9 million, the amount which Kennecott received through this settlement. The settlement was accomplished in this way.

Kennecott assigned the notes to a trustee, who in turn sold participation certificates in the trust instruments to a number of commercial banks in the United States. OPIC guaranteed these participation certificates under its claim settlement authority. We now have a contingent liability under this arrangement for the next 5 years with a lump-sum payment at the end of that period.

Mr. MILLS. Chile has openly stated these notes are going to be paid by Chile, and so we expect that they will continue to meet payments on them. In the meantime Kennecott has received its money and we are waiting to receive the money from Chile.

Mr. SHRIVER. My 5 minutes are up.

Mr. PASSMAN. If I may expand a little on that, Mr. Shriver, our experience with Chile would not indicate that there is any positive assurance these payments will be made, is that correct?

Mr. MILLS. Not positive, Mr. Chairman.

Mr. PASSMAN. That is what I am talking about. The overall actions of Chile, the way they repudiated other obligations, it is not a very good assurance on which to base credit.

Mr. MILLS. I am optimistic, but I am also a realist.

Mr. PASSMAN. But the answer to my question is in the affirmative, is that correct? I don't want to put words in your mouth, but I want an answer.

Mr. MILLS. Yes, Mr. Chairman.

Mr. PASSMAN. Thank you very much. Dr. Long.

CLAIMS IN CHILE

Mr. LONG. I have a total of $9 million paid to OPIC in insurance premiums by ITT, Kennecott and Anaconda. Would that be accurate?

Mr. MILLS. I can tell you that, Mr. Long, $4.9 million for ITT, $2.4 million for Kennecott and roughly $1.7 million for Anaconda. It is roughly about $9 million.

Mr. LONG. I understand that the total claims that have been settled are around $78 million, with $93 million of claims that are pending, being adjudicated. That totals about $160 million which is about 15 times the premiums paid in. Is that right? Do you see anything that justifies that kind of payout? Isn't this in line with some of the predictions made in this committee some time ago, when OPIC was being set up, that this was just about what was going to happen?

Mr. MILLS. Let me review a couple of things. As you may know one company, Anaconda tried to save substantial premium costs by placing their coverage on standby. We denied their claim of $154 million. The only Anaconda claim that we have paid is $12 million.

Mr. LONG. That amount alone is greater than all the premiums that were paid to OPIC by these three companies.

Mr. MILLS. Of course, but that is the principle of insurance. Individual premiums are always less than potential individual losses. It is the same principal of some person's house burning down. His premiums paid are never equal to the value of his house. We have received $185 million in premiums over the life of the program.

Mr. LONG. That could all go out in Chile alone.

On that sum of money that has been promised to Kennecott in promisory notes, would you endorse those notes?

Mr. MILLS. Personally? If my family didn't want to eat, I think certainly could, depending upon how the final claims are being handled.

Mr. PASSMAN. That is a fair answer.

PRODUCTIVE CREDIT PROGRAM

Mr. LONG. Now you are levelling. Mr. Mills, you talk here about an experimental capitalization mobile savings program in five Latin American countries, and you mention that this program will try to expand credit to poor people for farming and business development. Do you equate community development and business development?

Mr. MILLS. What we are trying to do, to give you an example of how in one sense they are one and the same in certain instances, in one town we did a project.

Mr. LONG. If you enhance business development that is going to improve community development.

Mr. MILLS. It is like a local water system. Under the productive credit guaranty program, we put a little water well and the community residents are paying to build the waterplant. This water supply will help encourage new small businesses to develop. In another instance, a new community store was financed so that the community had two stores to buy at instead of one store, at competitive prices. I think the answer is that in certain cases the two factors can be mutually reinforcing.

Mr. LONG. Have you been to many of these underdeveloped countries?

Mr. MILLS. Yes; I have been to a lot of them.

Mr. LONG. I have been to a dozen or more. What I have noticed is that the urban sector is the one that is moving along and, in fact, in some cases looks better than the United States, but when you get out in the rural area, you are told and you can see that there hasn't been much change for a thousand years.

Mr. MILLS. Yes; I would completely agree. We are not talking about business.

Mr. LONG. In talking about community development you are talking about agriculture, the sector where most of the people live. This is what community development is. It isn't in the cities at all. It is agriculture.

You set out to improve the life of the ordinary guy.

Mr. MILLS. That is precisely right. We have some wonderful examples where this has worked.

Mr. LONG. What are the five Latin American countries in which this program is going on?

Mr. MILLS. Honduras, Guatemala, Colombia, Brazil, and Panama, big and small.

Mr. LONG. When did you start them?

Mr. MILLS. About 2 years ago.

Mr. LONG. I visited those countries I guess not more recently than that. I just hope you are getting better results there than what I have seen.

PROJECT EVALUATION

With regard to the host country, do you require feasibility studies with cost/benefit and internal rate of return calculations to show the benefits?

Mr. MILLS. We require more importantly, I think, that all projects be approved by the host government.

Mr. LONG. That is a different thing. That is where I differ with you completely. I think that I and some members of this committee don't trust the host governments. They will put money in anything. When I talk about cost/benefit ratio, I mean something that shows quantitatively that these are sound projects.

Mr. MILLS. I think Mr. Price, who is head of our insurance department, can give you the answers on this, because we do go into this quite extensively.

Mr. PRICE. The kind of quantitative evaluation you describe is new with OPIC. Today we do two analyses before we write an insurance contract. One is a U.S. effects analysis designed to show the effect on U.S. jobs and U.S. balance of payments of the proposed investment. That is addendum No. 1 to an action memorandum that would be prepared by the insurance officer.

Mr. LONG. I hope you don't regard that as the same thing as benefiting the United States. Digging holes and filling them up would provide jobs in the United States, but it might not be a very good use of resources. You recognize that?

Mr. PRICE. I recognize that. The second addendum to the action memorandum is an analysis of developmental effects. I think this gets to the point that you raise. I can give you copies or submit for the record the form of the two addenda that we use.

Mr. PASSMAN. Without objection, they will be inserted in the record at this point. The time of the gentleman has expired. We will get back to you after we go around the table under the 5-minute rule.

[The information follows:]

Revised 8/23/72

ANALYSIS OF U.S. EFFECTS FOR
MANUFACTURING PROJECTS 1/ 2/

ADDENDUM NO. 1 TO ACTION MEMORANDUM
ON INSURANCE CONTRACT NO. _____

WORK SPACE FOR CALCULATIONS

1. U.S. Trade Effects

(A) List gross exports of U.S. capital goods, materials, and production inputs to the project 2/ in the first five years. (FA Question 19 II D and A) 1/

Original U.S. Procurement $

Exports of Production Inputs
$
$

Total for Five Years $

(B) List U.S. exports in first five years which project production will displace (FA Question 19 II F if information given), and U.S. imports project will produce (FA Question 19 II G).

$_____ U.S. Exports Displaced

$_____ U.S. Imports Projected

Total for Five Years $_____

(C) Determination of net project-connected U.S. trade.

(A) less (B) above = NET DIRECT PROJECT-CONNECTED U.S. TRADE FOR FIVE YEARS $_____

(D) Divide figure arrived at in (C) above by $45,200 or, if more appropriate, use the three-digit SIC industry ratio from Annex C.

Net Direct Project-Connected US Trade $_____ = _____ MAN YRS. OF U.S. EMPLOYMENT FROM DIRECT U.S. TRADE DURING FIRST FIVE YEARS

$45,200 or Industry figure from Annex C $_____

(E) Determination of U.S. indirect exports expected.

Net annual foreign exchange saving estimated in FA Question 8

1/ Based on information furnished in answer to Formal Application questions.

2/ Unless otherwise indicated, information should relate to the effects caused by the new investment for which insurance is sought.

ORK SPACE FOR
CALCULATIONS

B 5 is $_____. Using percentage figures in Annex B for U.S. share of host country's imports, determine indirect effect on U.S. exports for first five years.

$_____ x 5 x _____% = FIRST FIVE YEAR INCREASE IN INDIRECT U.S. EXPORTS
$_____

(F) Convert figure arrived at in (E) above by using the $45,200 All Manufacturing figure from Annex C.

Increase in Indirect Exports $_____ / All Manufacturing figure $45,200 = _____ MAN YRS. OF U.S. EMPLOYMENT FROM INDIRECT U.S. EXPORTS DURING FIRST FIVE YEARS

2. Cumulative U.S. Financial Flows

(A) Total dollar capital investment by U.S. investors in the project over the first five years. (FA Question 19 I A and B)

By Insured Investor $

By Other U.S. Investors $

$

Minus $_____ Eurodollars

And Minus $_____ U.S. Procurement

TOTAL $_____

(B) Estimated return flows to the U.S. of funds from the project over the first five years. (FA Question 19 II E)

Interest Installments	$
Dividends	$
Royalties & Fees	$
Subtotal of earnings	$
Return of Capital	$
Principal Installments	$
TOTAL EARNINGS + CAPITAL RECOVERY	$

(If available, include all return flow, not just those of this investor.)

Addendum No. 1 to Action Memorandum
on Insurance Contract No._____

SCRATCH SPACE FOR CALCULATIONS

(C) NET U.S. FINANCIAL FLOW: (B) Total - (A) Total = $_____

(D) Convert earnings subtotal in (B) into potential gain or loss of U.S. employment equivalents by using $25,300, or, if more appropriate, the three-digit SIC industry ratio in Annex D.

Earnings = $_____ / $25,300 or Industry Amount from Annex D = _____ MAN YRS. OF U.S. EMPLOYMENT FROM EARNINGS DURING FIRST FIVE YEARS

3. Summary

1. Net Direct Project-Connected U.S. Trade
_____ Man Yrs. U.S. Employment

Increase in Indirect U.S. Exports
_____ Man Yrs. U.S. Employment

Earnings
_____ Man Yrs. U.S. Employment

NET TOTAL EFFECT ON U.S. EMPLOYMENT FOR FIRST FIVE YEARS

_____ Man Yrs. U.S. Employment

2. Net Direct Project-Connected U.S. Trade $_____

Increase in U.S. Indirect Exports $_____

Net U.S. Financial Flow $_____

NET EFFECT U.S. BALANCE OF PAYMENTS FOR FIRST FIVE YEARS $_____

ADDITIONAL QUESTIONS ON U.S. BALANCE
OF PAYMENTS AND RELATED ISSUES

In order that OPIC may consider certain effects which your proposed foreign production may have on the U.S. balance of payments, please answer the following questions to the best of your ability.

1. Competitive Position of U.S. Production. What is the competitive position at this time of U.S. domestically produced articles comparable to those which the Foreign Enterprise will be manufacturing?

U.S. Domestically Produced Share	Position In U.S. Market	Position In Host Country Market	Position In Other Major Market(s)
increasing	( )	( )	( )
stable	( )	( )	( )
decreasing	( )	( )	( )

Comment briefly in explanation of answer:

2. Investment Decisions by Competitors. Are any non-U.S. investors actively considering investing in a manufacturing facility which would be an alternative to your project in the same country or another LDC? Is this a factor in your decision to invest? Explain.

3. U.S. Export Displacement. What do you estimate to be the dollar volume in the first five years of direct U.S. exports to all countries which will be displaced by the anticipated production from your proposed project once in operation? If investment plans by non-U.S. investors are being actively considered (question 2. above) what do you estimate to be the dollar volume effect on direct U.S. exports that would result from your competitor's project?

	By Your Project	By Alternative Non-U.S. Project(s)
Direct U.S. Exports Displaced Over Five Years		
Exports to Project Country	$	$
Exports to Other Countries	$	$
	TOTAL	TOTAL

Explain the basis of your estimate:

4. U.S. Export Encouragement. If you are a minority investor in the project, is your investment decision critical to assuring that exports of U.S. source capital goods, materials and/or production inputs to the project country will take place which otherwise would not occur? If yes, explain your answer.

5. Defensive Investment Decisions. Do you regard your investment as necessary either to secure or retain participation in the host country market or in a third country market? If so, explain why, briefly.

6. Projected Imports to the U.S.

(a) In answer to OPIC's Formal Application Question 19 II G you have estimated the aggregate amount of sales by the project enterprise to the U.S. market after production is reached. With reference to the first five years after production begins, would you indicate the product(s) intended for export to the U.S. and export amounts.

Product	Aggregate Exports to U.S. in $

(b) If non-U.S. competitors are also considering investing in a local production facility which would be alternative to your project (Question 2), what would you estimate to be the amount of sales of these products in the U.S. in the same five-year period from the non-U.S. owned production facility?

$_____

(c) What effect, if any, do you expect the U.S. imports in (a) above to have on U.S. price levels for the same or related products? (Give figures if possible)

Name of Applicant	Signature
Project Country	Title

DEVELOPMENT EFFECTS WORK SHEET FOR
PROJECTS WITH $1 MILLION OR MORE OF
INSURED INVESTMENT 1/

ADDENDUM NO. 2 TO ACTION MEMORANDUM
ON INSURANCE CONTRACT NO. _____

I. CALCULATIONS

A. HOST COUNTRY FOREIGN EXCHANGE: (Question 8(b))

Net annual foreign exchange earnings and/or savings for first five years following Project completion, reduced to yearly average.

1. Yearly value (cif) of imports replaced $_____
2. Yearly value (fob) of exports generated $_____
   (A) Total $_____ (saving)
3. Yearly value (cif) of imports for production $_____
4. Yearly remittance of profits, loan repayment, etc. $_____
   (B) Total $_____ (cost)
5. Net foreign exchange saving or cost:
   (A minus B) $_____ saving/cost
6. Ratio of foreign exchange earnings to costs $\frac{A}{B}$ = _____%

Evaluation:

_____ Good (net savings or earnings are 150% or more of costs)
_____ Acceptable (net savings or earnings are positive)
_____ Adverse (net savings or earnings are negative)

B. HOST COUNTRY DOMESTIC REVENUE: (Questions 8(A) 1, 19 I)

(a) Net annual average taxes and duties to be paid by project during first five years of production:

1. _____ (annual average taxes and duties paid by the project in first five years)
2. _____ (annual average taxes and duties lost due to import substitution)
   _____ (A) Total

(b) Total investment in project (all sources): (B) _____
(c) Ratio of taxes paid/investment for the project: $\frac{A}{B}$ equals (C) _____%

(d) If (c) is less than 10%, indicate duration of applicable tax holiday and effect its termination will have on tax revenues:

1. Period of tax holiday: _____ years
2. Effect of termination: _____

_____

1/ Based on correspondence with OPIC and information furnished in answer to Formal Application questions.

Evaluation:

_____ Good (net annual average tax revenues equal 10% or more of total investment in project)
_____ Acceptable (revenues produced will be significant when reasonable tax holiday ends)
_____ Adverse (insignificant revenues produced or excessively long tax holiday)

C. TARIFF PROTECTION ON PRODUCT(S): (Questions 9, 18)

(a) Pre-existing level of protection in the product field in the host country: (laws of general application)

1. Product or products considered: _____
2. Quantitative restrictions (describe): _____
3. Tariff level: _____
4. Other existing protection (describe): _____

(b) New protection (special agreements negotiated with gov't by the Investor):

1. Quantitative restrictions (describe, including duration): _____
2. Tariff level (include duration) _____
3. Other protection (describe): _____

Evaluation:

_____ Good (no quantitative restrictions on competing imports; plus tariffs are less than 30% of cif value; plus duration of negotiated protection, if any, is five years or less)
_____ Acceptable (any quantitative restrictions on competing imports are pre-existing and less than 100% exclusion exists; plus tariff duties on competing imports do not exceed 50%; plus duration of negotiated protection, if any, is less than 8 years)
_____ Adverse (new quantitative restrictions and/or more than 50% tariff duties on competing imports, with duration of negotiated protection 8 years or more)

If export monopoly concession, check here _____

D. LOCAL CAPITAL MOBILIZATION: (Question 8(A) 2)

(a) Amount of local capital invested in the project (including host government):

1. Equity: _____ Amount ____ Per Cent of Total Project
2. Other than Debt (describe): _____

_____

(b) Describe any plans or requirements for local private equity participation to increase (do not include host government participation):

_____

_____

_____

Evaluation:

_____ Good (local investment is a substantial portion of initial total investment in the project, or local private equity participation is expected to increase to a significant percentage)

_____ Acceptable (there is or will be some local capital investment in the project)

_____ Adverse (there is no local private investment in the project)

E. LOCAL MARKET PRICES OF THE PRODUCT(S): (Question 8(A) 4)

(a) Products considered (list): _____

(b) Existing local market prices of similar products: _____

_____

(c) Projected local market prices of the Foreign Enterprise: _____

_____

(d) Difference: _____

_____

Evaluation:

_____ Good (projected prices of main products are lower than current prices of those products)

_____ Acceptable (projected prices of main products are less than 20% above current prices and project has a strongly positive effect on the country's balance of payments, see Evaluation A)

_____ Adverse (projected prices are more than 20% above current prices; or projected prices are 0-20% above current prices and project's effect on the country's balance of payments is not strongly positive)

F. EFFECTS ON LOCAL SUPPLIERS AND/OR DOWNSTREAM INDUSTRIES: (Question 8(A) 3)

(a) Identify new local investment or increased economic activity that can be foreseen as a result of the project: _____

_____

_____

(b) Is the project's effect listed in (a) likely to substantially increase the local production of supplies and components or to substantially increase downstream fabrication, packaging or distribution?_____

_____

Evaluation:

_____ Good (project substantially increases local market for production supplies and components and/or local fabrication, packaging or distribution of the end product)
_____ Acceptable (the project will have some incremental stimulus effect on local industries)
_____ Adverse (project will have no identifiable stimulus effect on local industries)

G. EMPLOYMENT AND SKILL CREATION: (Question 8(C), (D))

(a) Capital/employment ratio of the project (divide total new investment in the project from all sources by total employment in the fifth year; if new investment is vital to continuing the operations of the Foreign Enterprise divide new investment by total employment):
_____ = $_____ per employee

(b) Describe specific plans, if any, for local staff training in the project:_____

_____

(c) Number of local nationals to be employed in the project: construction period _____; first year _____; fifth year _____.

Evaluation:

_____ Good (ratio of invested capital to employment in fifth year is $10,000 or lower)
_____ Acceptable (project will make a significant net increase in employment in the host country, and includes specific plans for local staff training)
_____ Adverse (net increase in employment is less than significant; or project includes no specific plans for local staff training)

H. OTHER SIGNIFICANT FACTORS: (Questions 8(A) 6, 8(D))

Summarize any significant positive or negative factors important to determining the project's developmental impact (e.g., technological contributions, ecological factors, project-financed additions to host country infrastructure)_____

_____

_____

_____

_____

_____

Evaluation:

_____Good (if other significant positive factors are present)
_____Acceptable (if no other significant negative factors are present)
_____Adverse (if other significant negative factors are present)

I. SUMMARY EVALUATION:

1. Number of evaluations in A through H marked "good":_____
2. Number of evaluations in A through H marked "acceptable":_____
3. Number of evaluations in A through H marked "adverse":_____

OPIC/ID:EEWright:tlf:7/26/72

Mr. PASSMAN. Mr. Miller.
Mr. MILLER. No questions at this time.
Mr. PASSMAN. Mr. Roybal.

CLAIMS SETTLEMENT

Mr. ROYBAL. In the settlement of a claim wouldn't the increased costs to OPIC be more generous on a claims settlement?

Mr. MILLS. No. This is one of the questions that has been asked us often, Congressman. We feel it is not a question of being more generous. We are tough in settling our claims. We are very fair. I think we also have to be fair in the promptness of paying a claim. If we approve it, we have to be able to say we will pay you if we decide you have a valid claim. My concern, as I mentioned last year, is with our ability to pay valid claims promptly. In the case of the *Carib Queen* when the Maritime Administration guaranteed certain private investors and then did not have any reserve funds to pay them when the loans defaulted. It took almost a year for them to get paid, through an appropriation, which was very embarrassing to everybody, to the Government and to the investors.

We are simply trying to establish that in good, sound business practices a reserve level of about $200 million is what we think we should maintain.

Mr. ROYBAL. What happens when there is a difference of opinion as to the amount to be paid in settlement?

Mr. MILLS. Two things can happen. No. 1, we can negotiate a compromise or the differences can be submitted to arbitration. Almost every claim is adjusted somehow. We either compromise the difference or we go to arbitration. We have gone to arbitration only twice in the history of OPIC and have won both times. We have denied the claim and we have been taken to arbitration. I think our General Counsel does a very good job. We just won one case involving a timber operation in the Dominican Republic this year for approximately $350,000, the same firm that represented us on this case is now representing us in the Anaconda arbitration.

Mr. ROYBAL. When you say you "won it," what do you mean?

Mr. MILLS. It means the arbitrators decided unanimously OPIC was right in denying the claim and we are not paying anything.

Mr. ROYBAL. The same thing can be true of the claim you just denied of $154 million.

Mr. MILLS. Yes, this is the one I just mentioned. The Anaconda claim, where the company is taking us to arbitration. They have so advised us.

Mr. ROYBAL. Who pays the arbitrators?

Mr. MILLS. Both parties split the costs; isn't that correct, Marshall?

Mr. MAYS. Yes.

Mr. ROYBAL. This is not something paid by them or you but both.

Mr. MILLS. No, we both split the cost.

CREATION AND OPERATION OF OPIC

Mr. ROYBAL. I have been wondering right along why it was necessary for you to go into the insurance business to begin with.

Mr. MILLS. I am not sure I understand.

Mr. ROYBAL. In your statement on page 6 you say, "When OPIC took over management of the insurance program January 1971, that it was confronted with a $440 million potential claim on old contracts." What I am asking is why was it necessary for you to take over the insurance program in January 1971?

Mr. MILLS. OPIC was created to manage the old and new insurance portfolios and to try, among other things, to operate them on a businesslike basis.

Mr. ROYBAL. But you had been in existence long before 1971, had you not?

Mr. MILLS. No, we have only been formed 2 years. We inherited a program which had been going for 23 years. I think I can state here quite categorically that the programs managed by OPIC are vastly changed in 2 years compared to what this program was prior to this time. Through such people as Mr. Price and Mr. Mays and the other staff, I think we have brought some substantial changes in risk sharing, the principles of insurance that Congressman Long brought out. In the past, risk management principles were not applied. Do you realize, at one time 26 percent of our whole portfolio was in Chile? No wonder we have a problem. Why? Because these were not business decisions. That can't happen today. Our maximum exposure in any one country is down to about 12 percent, except for Jamaica, isn't it?

Mr. PRICE. That is right, and the board policy is to limit the rate of growth when it reaches 10 percent.

Mr. MILLS. This is the kind of thing that has got to be done or we do have these terrible problems referred to by Congressman Long.

Mr. ROYBAL. I was in another committee at the time this was being discussed.

Mr. PASSMAN. This was a facet of the AID program for many years. It became a complete independent organization 3 years ago.

Mr. MILLS. That is correct.

Mr. ROYBAL. My questions were going in another direction. It is not the same agency that I had in mind even though it is quite similar in many respects. That is why I was inquiring with regard to your taking over in 1971. From your statement it appears that you were involved in other matters, and then took over the insurance program in 1971, which is not the case, is it?

Mr. DICKERSON. That is correct.

Mr. ROYBAL. That will be all, Mr. Chairman.

Mr. PASSMAN. Mr. Coughlin.

EFFECTS OF OPIC ON U.S. EMPLOYMENT

Mr. COUGHLIN. Thank you.

Mr. Mills is a personal friend of long standing. As a new member of the committee I have just one question.

I am sure one of the things that we would be attacked on or that OPIC could be attacked on is that this is a business of exporting jobs. Can we get any detailed information as to the nature of the projects, the location of the projects that would refute that in the record?

Mr. MILLS. Yes. First of all, Mr. Chairman, I would like to submit for the record an interim report by Mr. Stobaugh, of the Harvard Business School, who is doing a study for us, that U.S. investments in

manufacturing in less developed countries where OPIC operates, has created approximately 120,000 U.S. jobs, and a net positive balance of payments of approximately $800 million per year. This is a study which is being made independently for us. If I may submit it for the record, Mr. Chairman, rather than read it.

Mr. PASSMAN. Without objection, it will be included in the record at this point.

[The information follows:]

INTERIM REPORT—U.S.-OWNED MANUFACTURING FACILITIES IN LESS DEVELOPED COUNTRIES AND THE U.S. ECONOMY

(By Robert B. Stobaugh, Harvard Business School)

January 31, 1973.

The Harvard University Graduate School of Business Administration has contracted with the Overseas Private Investment Corp. to make case studies of expansions of manufacturing facilities abroad in developing countries by U.S. firms and analyze these cases to determine the effect of such expansions on U.S. employment and the U.S. balance of payments. The analysis is to be based on a number of case studies available to Harvard from other research and upon some new cases to be studied explicitly as part of the OPIC-Harvard contract.

This is a progress report and presents estimates based on case studies completed prior to February 1, 1973. A more detailed report, including the results of additional case studies, will be published at a later date.

In 1971, a team of researchers under my direction at the Harvard University Graduate School of Business Administration made a detailed case study of foreign direct investments by U.S. multinational enterprises in the nine major industries that account for 90 percent of U.S. foreign direct investment in manufacturing. These case studies, along with attendant analyses and industry reference notes, were analyzed to determine the effect of such investments on U.S. employment and the U.S. balance of payments. This study included foreign direct investment both in developed and developing countries, the latter of which are located in Africa, South America, and Southeast Asia.

This study, released by the U.S. Department of Commerce early in 1972, concludes that manufacturing expansions abroad by U.S. firms has a positive effect on U.S. employment and the balance of payments, because most such expansions are defensive in the sense that if the producer continued to operate only in the United States, it would have lost its markets to competitors, mostly from Europe and Japan. U.S. investment abroad in manufacturing facilities provides jobs for production workers in the U.S. manufacturing capital equipment for use in the foreign plants, components for further processing or assembling in foreign plants, and goods for resale abroad or for sale on a commission basis that would otherwise not be sold abroad (so-called associated exports). Further jobs exist for whitecollar workers in the home office providing services for the foreign plants, technical personnel providing engineering and similar services, and research and development activities that could not be justified without the possibility of gaining income from the foreign plants.

This study estimated that some 600,000 jobs in the United States are dependent on U.S. foreign direct investments, and that the net effects of foreign direct investments on the U.S. balance of payments is a positive $3.5 billion.[1]

Our best estimate is that the portion of these positive effects attributable to manufacturing facilities of U.S. firms in developing countries is 120,000 jobs in the United States and a net positive U.S. balance of payments of $800 million. These numbers are approximations, of course, but are based on econometric models combined with the best assumptions derived from our case studies. Varying the assumptions within any reasonable range still results in positive effects to the U.S. economy in terms of employment and balance of payments.

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[1] See Robert B. Stobaugh, et al., "U.S. Multinational Enterprises and the U.S. Economy," in "The Multinational Corporation," U.S. Department of Commerce, Bureau of International Commerce, March 1972; and Piero Telesio, "An Analysis of the Effect on the U.S. Balance of Payments and U.S. Employment of U.S. Foreign Direct Investment in Manufacturing," a working paper for the New York University project on "The Multinational Firm and the U.S. and World Economy," November 1972.

Mr. LONG. Could you put in the record what his fee was for making this study?

Mr. MILLS. Certainly.

[The information follows:]

FEES PAID BY OPIC FOR HARVARD STUDY BY PROF. ROBERT STOBAUGH

OPIC did not contract with or pay Professor Stobaugh for this study. OPIC contracted directly with the Harvard Graduate School of Business and will pay Harvard a fee of $20,000 when an acceptable final report is received. This fee will cover all costs incurred in making the study, including salaries, materials, overhead, secretarial assistance, communications costs, and others. Professor Stobaugh was assigned by Harvard to do the study, and during that time received his normal professor's salary and nothing additional.

Mr. PASSMAN. I am a great admirer of yours, Mr. Mills, but all of you have to use your imagination an awful lot to say this operation is creating jobs. You make a good case and we are going to buy it at face value as far as possible. It is going to be a little bit hard for me to be convinced.

Mr. MILLS. Mr. Chairman, here is a perfect example.

Mr. PASSMAN. How about making one case orally.

Mr. MILLS. Here is a perfect example of bauxite mines in Jamaica which ship bauxite to Scottsboro, Ala., where it is processed in aluminum. That is a perfect example of how an investment in Jamaica produced jobs in Alabama.

Mr. PASSMAN. If I may proceed on the gentleman's time, how do you know this same process wouldn't be followed if you didn't have OPIC? Let's tie OPIC into it directly, because you had commerce between nations long before you had OPIC or AID either.

Mr. MILLS. What these companies have stated to us, for instance, American Metals Climax is doing exactly the same thing when they are shipping to Braithwaite, La., from Botswana where they are going to create 350 jobs in Braithwaite, La., to refine this copper-lead-zinc mat.

Mr. PASSMAN. How do you know the same process wouldn't have been followed, the same sales made, the same number of jobs generated without OPIC. You haven't tied OPIC into it yet.

Mr. MILLS. I have sat with presidents of many companies, Mr. Chairman, who said they will not invest in the developing countries without OPIC investment insurance. In these particular mines today——

Mr. PASSMAN. You are talking about insurance, aren't you?

Mr. MILLS. I am talking about insurance.

Mr. PASSMAN. Not about OPIC loans?

Mr. MILLS. Not about OPIC loans. This is the insurance.

Mr. PASSMAN. Now, I think you have tied it in.

Mr. MILLS. I have a letter here on Alcoa, which I would like to place in the record. The direct impact of Alcoa's Jamaica exports is 3,250 U.S. jobs in the companies refining and smelting.

(The information follows:)

IMPACT OF ALCOA'S JAMAICAN INVESTMENTS ON THE U.S. ECONOMY

Bauxite is the ore currently used for all the aluminum produced in the United States, as in the rest of the Free World. The United States has only relatively small deposits of bauxite, in Arkansas, and these are being processed to the limit of their economic capability. For most of its bauxite, the U.S. industry relies on imports from the Caribbean, Australia, Africa, and the Far East.

These imports are either as unprocessed bauxite or as alumina (aluminum oxide) refined from bauxite ore prior to import. Jamaica has been the largest source of bauxite and alumina imported into the United States, although imports from Australia have grown to a level that will exceed those from Jamaica.

Alcoa Minerals of Jamaica, Inc., supplies one-sixth of Alcoa's total U.S. bauxite/alumina requirements. It is in that sense valid to state that Alcoa's Jamaican investment supports one-sixth of the company's integrated U.S. operation.

Until 1972, the initial impact of our Jamaican operations could be directly measured at Alcoa's Point Comfort, Tex., bauxite refinery which was supplied by Alcoa's Jamaican mines. The alumina produced there was used at Alcoa's Point Comfort smelter and at other Alcoa smelting locations.

In 1972, Alcoa began operation of its new Jamaican refining plant. While Alcoa will continue to export bauxite from Jamaica for an interim period—and has an option for future bauxite exports—the impact of its Jamaican operations has now shifted to alumina exports. Currently, these are supplying Alcon smelters at Warrick, Ind., and at Vancouver and Wenatchee, Wash.

The direct employment impact of Alcoa's Jamaican exports is 3,250 jobs in the company's U.S. refining, smelting, and fabricating operations, according to conservative estimates. These figures do not include any allocation of general administrative, research and development or other groups of employees whose positions are only partially dependent on a continuing ore supply.

The 3,250 jobs generate an annual payroll cost estimated at $48,700,000, including fringe benefits. They provide direct employees' withholding tax to the Federal Government of $3,300,000. The economic impact of the production and sales activities related to this supply of raw materials is beyond reasonable determination. Federal, State, and local taxes available from gross profits—together with business benefits to the local communities in which Alcoa operates as well as to the business community nationwide—are only some of the beneficial effects resulting from the Jamaican investment.

Approximately 92 percent of Alcoa's supply of bauxite and alumina originates from foreign locations. The geographical location of commercial grade aluminum ores dictates the place of investment. The extent of the investment as to mining or refining is dictated both by economics and by political factors in the host country. Elimination of these raw material investments would neither generate more jobs in the United States nor benefit this country's balance-of-payments position. Without question, the necessity to purchase ore from parties outside Alcoa's integrated system would substantially weaken the competitive position of Alcoa, jeopardizing the jobs of Alcoa's 44,000 employees and the payroll and tax benefits related to them. The adverse side effects of such an alternative are too enormous and pervasive to estimate.

Alcoa believes that the insurance protection available through OPIC and actuarily funded by premiums paid to OPIC encourages the development of raw material sources upon which the U.S. aluminum industry is so dependent. We feel the importance of foreign raw material sources to the aluminum industry and its reliance on such foreign sources cannot be overemphasized.

Mr. PASSMAN. I want to thank the gentleman. This is a very valuable point. You just about lost the entire item last year on the floor with an amendment. I think you have made a valid case and I thank you for yielding.

Mr. COUGHLIN. That is all I have.

Mr. SHRIVER. Will you yield a moment on that? If our investors did not want to make an investment in Jamaica because of the insecurity of the country or something like that, you would secure it. Is that correct?

Mr. MILLS. I don't want to use any specific country, Mr. Congressman. The purpose of the insurance is to say, look, invest in Jamaica or in these other countries rather than investing in developed areas such as Australia or Canada simply to give these nations a chance also to develop. What we are simply saying is we put it on an equal basis. The president of a company or a board member asks whether it is safe to invest in a particular developing country. You say let's

go to Australia or Canada and so no significant investments move to these countries without this kind of protection, because the risks are too large.

OTHER NATIONS INVESTMENT PROTECTION PROGRAMS

Mr. PASSMAN. Before yielding to Mr. Bevill, is it not a fact that most industrialized nations have a similar program.

Mr. MILLS. Yes, but not only industrialized countries. There are similar programs in all major creditor nations and now the Arabs are starting programs for Arab investment in the Arab nations. Africans are starting it, to attract and protect private investment.

U.S. EMPLOYMENT EFFECT

Mr. LONG. Would the chairman yield on that point?

Mr. PASSMAN. Yes.

Mr. LONG. Every Congressman is constantly getting flak on this. From our constituents and from the unions we are being asked, why don't our capitalists invest the money in our own country? We have a great lack of capital in many of the underdeveloped areas of cities. A question that is very difficult to answer is why the money is going instead to so many underdeveloped or developed countries overseas. My constituents don't care whether it is a developed or an underdeveloped country. They would like to see the money stay here and create jobs.

This Professor Stobaugh or whatever his name is, does he claim that more jobs are created in the United States by exporting capital overseas than would have been created if we had invested that same amount of capital in the United States?

Mr. MILLS. I don't think he states that.

Mr. LONG. Isn't that the point?

Mr. MILLS. No. The point is do investments abroad create jobs in the United States.

Mr. LONG. I wouldn't doubt that. Of course if they have to spend the money back in the United States it is going to have that effect, but at the same time we are working our heads off and giving the goods away to some other country. The real question is different. Does Mr. Stobaugh claim you get more of an employment multiplier from sending your money abroad than you get from keeping it here in the United States?

Mr. MILLS. That specific question wasn't asked.

Mr. LONG. Why wasn't it?

Mr. MILLS. Because that overlooks the realistic choices an investor has—let's take bauxite. There is no bauxite in the United States.

Mr. PASSMAN. Let's put something in the record on it. We don't have all the raw materials in this country. We are in short supply in some areas. In many instances it is necessary to buy these materials abroad and import them into this country. We are finding that true more so in petroleum now than ever before, isn't that true?

Mr. MILLS. Yes, it is true.

Mr. PASSMAN. Mr. Bevill.

TRANSFER OF FUNDS TO HOUSING PROGRAM

Mr. BEVILL. Thank you, Mr. Chairman.

Mr. Mills, I notice that your summary indicates $83.9 million which includes the insurance premiums transferred to AID housing guaranty program, $50 million.

Mr. MILLS. That is correct, sir.

Mr. BEVILL. Did Congress authorize this transfer?

Mr. MILLS. They not only authorized it, they required it. That is why we are back to you. They transferred the $50 million. That was paid in cash. For instance, this cash paid in by all the companies was taken away from our program and given to AID housing. That is why we are here, Congressman, trying to get this money back.

NO NEED FOR ADDITIONAL APPROPRIATION

Mr. BEVILL. Really what you are saying in effect, if Congress had not transferred to the AID housing guaranty program the sum of $50 million, then you wouldn't even be coming before the Appropriations Committee this year.

Mr. MILLS. We are required to come every year, under the provisions of the Government Corporation Control Act.

Mr. BEVILL. As far as asking for any more money is concerned?

Mr. MILLS. As I stated here last year, Congressman, we think if we had received the $85 million request which is the $50 million plus the lost interest, that we would not be here this year except if we had some major disaster. We have not had any major disasters that would bring us back here.

Mr. BEVILL. When you say major disaster, you would be referring to expropriation.

Mr. MILLS. Some additional expropriations other than what we had in Chile. For instance, if we should lose the arbitration case with Anaconda, it depends on whatever the award is, if it is zero we are in good shape. If it is $154 million that would be different.

Mr. BEVILL. Of these funds that you have on hand, you are investing them.

Mr. MILLS. Yes, sir. Since 1969 earnings have been invested.

Mr. BEVILL. I gather that that started in 1969 because that is when you were authorized to do it, is that right?

Mr. MILLS. That is correct, sir.

OPIC TO BE SELF-SUSTAINING

Mr. BEVILL. So actually your ultimate goal is to be self-sustaining, isn't it?

Mr. MILLS. That is exactly what our ultimate goal is, and I think with our risk management policies the new portfolio can be made self-sustaining. I have some charts. If I may just take some of my time, Mr. Chairman.

Mr. PASSMAN. You have already used it, but we will yield to you additional time.

Mr. MILLS. What we are trying to do is put some principles of insurance risk management in here and not just be a program which is

drain of the taxpayers' dollars. We are today in 90 countries. Why do I say a reserve maintained at $200 million? The only country left in the world today where we have a major exposure is Jamaica, which is $500 million. Then you drop right down here to Chile. Then you go down here to Brazil, which is $200 million.

Gentlemen, therefore that means with $200 million of reserves, I can take a wipeout in any country, and be able to pay for it out of the reserve. That is I think very significant.

However, what we also have is risk management by industry within the country. We break up the portfolio into industries, like agriculture, mining, mining manufacturing, utilities, finance, and others. When a country expropriates, it is not always in every industry. In Chile we have reached some solutions outside of the copper field, where Chile is paying. So everything doesn't appear to fall due at one time.

If we come back to this $200 million goal that I mentioned and if we will use these principles of risk management, the insurance program can be run on a businesslike basis in the future. Mr. Price can give you some examples of what we have done that is new. I think the committee might appreciate it.

RISK SPREADING

Mr. PRICE. I think the most important thing any insurance company would do, looking at a portfolio the size of ours, would be to ask about spreading some of these risks and sharing them. That is exactly what we did in looking into reinsurance. It took us about a year and a half of negotiations but finally for the first time we reinsured expropriation risks with Lloyds of London in 1972. We have now renewed that program for 1973. In 80 percent of the countries in which we have insurance contracts outstanding or are offering insurance, Lloyds will pay 50 percent of any claim we pay.

We are also working with the U.S. private insurance sector to try to get them involved, so that some of our risks can be spread thus protecting our reserve. This, of course, is a common insurance principle.

Mr. PASSMAN. Thank you.

Mr. BEVILL. That is all.

Mr. PASSMAN. I want to apologize for this 5-minute rule. I didn't create this rule but we are going to operate by it because there are 12 members of the subcommittee. After we go around the table it is understood that every member of this committee can take a full day on any subject.

Mr. MILLS. I will be glad to answer any questions.

BALANCE OF OPIC'S RESERVES AFTER PAYING ALL CLAIMS

Mr. PASSMAN. You will have plenty of time to answer questions. Could you tell the committee at this time the amount of money that has been appropriated by the Congress to this particular program, not only OPIC, but OPIC's predecessor?

Mr. MILLS. Yes, I can. If we add in the $12.5 million we just got, it is $139 million.

Mr. PASSMAN. Including the $12.5?

Mr. MILLS. Including the recent $12.5 million, Mr. Chairman.

Mr. PASSMAN. Had we not appropriated this $12.5 million and when you add up the amount of claims you paid and the amount of claims you know you are going to have to pay, what would be your position? What would be your overdraft?

Mr. MILLS. It is interesting. Our position would be almost the same because under the law we had to allocate a 25-percent fractural reserve when we came into existence to back up the guarantee program; $70 million was allocated. We would have approximately $40 million left. We would have about $100 million in earnings.

Mr. PASSMAN. Take your total income from insurance premiums, since you went into business, and subtract from that the administrative expenses. Then what is the net balance?

Mr. MILLS. We have a net balance today, Mr. Chairman, of about——

Mr. PASSMAN. I am trying to get your bookkeeping from the inception of this project.

Mr. MILLS. It is right here.

Mr. PASSMAN. I have been sitting here as chairman of this committee 19 years and they made just as good a case 19 years ago as you made. Your appropriated funds have been $139 million.

Mr. MILLS. Right, and we have earned $185 million.

Mr. PASSMAN. What has been your administrative expenses during the same period of time properly allocated to AID and to OPIC?

Mr. MILLS. We have only allocated administrative expenses in the last 4 years.

Mr. PASSMAN. I am talking about since its inception. I am trying to be fair and show the total picture. How about the past 4 years?

Mr. MILLS. About $7 million from fiscal year 1970 to fiscal year 1973.

Mr. PASSMAN. What is the total gross earnings?

Mr. MILLS. Our gross earnings is about $185 million before interest.

Mr. PASSMAN. Subtract from that the $7 million. That would give you $178 million.

Mr. MILLS. Right.

Mr. PASSMAN. What has been the total amount of claims paid?

Mr. MILLS. $20 million.

Mr. PASSMAN. What is the total amount of claims pending, all inclusive?

Mr. MILLS. Pending, about $113 million.

Mr. PASSMAN. All right, does that include ITT?

Mr. MILLS. Includes ITT.

Mr. PASSMAN. What other claims?

Mr. MILLS. That is it. Today I have $113 million pending. We have, Mr. Chairman, quietly solved a lot of our problems.

Mr. PASSMAN. What?

Mr. MILLS. We are solving a lot of our problems.

Mr. PASSMAN. I want to commend you. I am not being critical. I am trying to understand whether you have operated your insurance at a profit or loss. That is what we are trying to establish.

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

Is there only one claim pending for $113 million?

Mr. MILLS. No, no, there are many claims pending.

Mr. YATES. I thought your answer to the chairman was you have the ITT claim pending for $113 million.

Mr. MILLS. No, ITT is included in the $113 million.

Mr. PASSMAN. So what would be your net balance from the time you went into business under AID through your last accounting period forgetting about appropriated funds? Let's deal entirely with your receipts and subtract the administrative expenses.

Mr. MILLS. Receipts and cash, Mr. Chairman, are approximately $160 million positive.

Mr. PASSMAN. Positive?

Mr. MILLS. That means income to the United States.

Mr. PASSMAN. To this program and to the Treasury?

Mr. MILLS. This is correct.

Mr. PASSMAN. You are not counting appropriated funds?

Mr. MILLS. No.

Mr. PASSMAN. Premiums and cash collected.

Mr. MILLS. Premiums paid by the U.S. businessman. That excludes interest that we could have earned on this. It excludes all interest.

Mr. PASSMAN. You don't take your capital account that you use daily to pay bills and invest it. You know you have to have a balance there to meet these claims. Then what has been the net profit or net loss since the inception of the program?

Mr. MILLS. Roughly about $160 million profit.

Mr. PASSMAN. You haven't collected that much.

Mr. MILLS. Oh, yes, we have. We collected $185 million.

Mr. PASSMAN. $185 million? What do you subtract?

Mr. MILLS. You subtract the $20 million in claims.

Mr. PASSMAN. All right, then pending claims.

Mr. MILLS. Pending claims we may not pay.

Mr. PASSMAN. You know very well you are going to pay ITT. We have already agreed that it is a bona fide claim. I don't think you are intentionally being unfair but you are not stating the case as I and as you understand it. What are the potential claims? Then we will make up our own minds.

Mr. MILLS. $113 million potential claims.

Mr. PASSMAN. How about the other claim you settled on promissory notes?

Mr. MILLS. Over a 5-year period.

Mr. PASSMAN. What is the total amount of the claim?

Mr. MILLS. $66 million.

Mr. PASSMAN. We agreed you wouldn't want to put your savings in these notes.

Mr. MILLS. $66 million.

Mr. PASSMAN. Add that to the figure you just gave.

Mr. MILLS. Mr. Chairman, we have got to consider OPIC's future income too if one is going to add in future potential liabilities.

Mr. PASSMAN. This is a claim we know very well. We all agreed there is a chance it will not be paid.

Mr. MILLS. You are talking about Kennecott?

Mr. PASSMAN. Yes.

Mr. MILLS. That is $66 million, Mr. Chairman.

Mr. PASSMAN. If you take that into account, then you take the pending claims and take what you have paid out; I want to be fair, on that basis you are in the red.

Mr. MILLS. I think there is only one figure I will dispute, the pending claims. I had $250 million pending last year and OPIC settled many of those claims. One claim was denied for $154 million.

Mr. PASSMAN. You did that because they hadn't paid premiums?

Mr. MILLS. Right.

Mr. PASSMAN. And you know I know that, but ITT paid their premiums.

Mr. MILLS. I think, Mr. Chairman, if I may introduce a statement here on ITT.

Mr. PASSMAN. Certainly, put it in the record. We don't want to confuse claims where people say we have this claim and they did not pay the premiums. There is a difference, isn't there?

[The statement for the record follows:]

STATEMENT OF MR. MILLS

Mr. Chairman, as you know, ITT has an application for compensation pending before OPIC. For the past year or so, with the assistance of outside lawyers, CPA's and engineers, OPIC has been evaluating this claim. At this moment, OPIC is in the final process of analyzing the available evidence and legal issues, with a view toward acting on the claim in the near future. I have been advised by our counsel that it would be inappropriate for me to comment in any way on the ITT claim as long as the question of ITT's right to compensation is still undecided. After the issue has been finally resolved, I shall be happy to testify about it if you so desire. In the meantime, I am, of course, available to testify about other aspects of the OPIC insurance program.

Mr. LONG. Will the chairman yield?

Mr. PASSMAN. As soon as I make this point. I want to be fair about this thing. A lot of this is not chargeable to your administration. You have a policy today that most of us can embrace. That is that you will not insure over 10 percent of the account in any one country, but if we don't make this record clear when you come in for a supplemental you are not going to be able to get it. We previously agreed you would be in better shape to go ahead and establish what your losses are, get a supplemental, pay it and start all over. We discussed that.

Mr. MILLS. Right, that was discussed.

Mr. PASSMAN. And I think we agreed that would be the proper way to handle it, but if we just keep saying yes, we have a loss, no, we don't have a loss, who is going to understand it.

Mr. MILLS. If you take the $20 million in net claims payments, and the $66 million in the Kennecott settlement, that is $86 million. We will have been paid $185 million by June 30.

Mr. PASSMAN. How about the claims?

Mr. MILLS. That are pending? That is $113 million.

Mr. PASSMAN. Add that up.

Mr. MILLS. That is $199 million.

Mr. PASSMAN. Subtract that from total receipts.

Mr. MILLS. From $185 million, I am down $10 million if you do not take into account future income and interest.

Mr. PASSMAN. There you are. Your appropriated funds is really what is bailing you out, isn't it?

Mr. MILLS. The appropriated funds help us in case we have to meet a claim.

Mr. PASSMAN. What I wish you would do, Mr. Mills, is to make it abundantly clear the amount of money you actually need to get your operation on a sound, operating basis. I think you are doing a good job. I like most of the policies by which you are actually operating today with the exception of something I am going to get into a little later. It would appear to me you are putting the insurance program on a business basis; and when you do that, recognizing other countries have a similar program, I am going to support you.

Mr. LONG. Will you yield?

Mr. PASSMAN. I yield.

USE OF ACTUARIES

Mr. LONG. Are you in the private insurance business?

Mr. MILLS. Am I or have I ever been? No.

Mr. LONG. You know a little bit about it, don't you?

Mr. MILLS. A little bit.

Mr. LONG. You realize that any private insurance company would have set up an actuarial estimate of what the future losses might be, or try to.

Mr. MILLS. We have tried to. That is a very good request. The first thing we did was try to hire actuaries, and they came back and said it was not actuarially possible to calculate future losses because claims paid were so few in number, and over a fairly short period of time.

Mr. LONG. The situation is so bad that you can't even set up an estimate. Yet a few minutes ago you were about to claim the future revenues here that might come in. You just threw up your hands at the idea of the future losses you might have. I think you are a little disingenuous with this committee. You ought to tell us what the situation really is; namely, that it is a pretty bad one, that Congress is going to have to pay for it.

DESIRED SIZE OF RESERVE

Mr. PASSMAN. Do you have an account known as a contingency liability account? You know you are going to have some claims.

Mr. MILLS. All our income goes into the reserves.

Mr. PASSMAN. That isn't quite fair because everything that you collect and all your appropriated funds are not expected to go down the drain. You have had enough experience in the underdeveloped countries around the world; do you have any idea of what a fair amount would be to set up as a reserve?

Mr. MILLS. I believe OPIC should maintain a reserve of about $200 million.

Mr. PASSMAN. You would like $200 million.

Mr. MILLS. Because the present country liability spread, with the exception of Jamaica, suggests this approximate level.

Mr. PASSMAN. With respect to the $200 million reserve, you won't necessarily spend the $200 million.

Mr. MILLS. Oh, no, I do not necessarily mean a cash payout. It is a reserve.

Mr. PASSMAN. Maybe like some of these banks call callable capital.

Mr. MILLS. Similar to callable capital.

Mr. PASSMAN. Is that the way you are going to describe it in your request?

Mr. MILLS. That is precisely what it is, callable capital.

Mr. PASSMAN. Do you think there is any merit to my recommendation that you go ahead, pay all these claims and get it behind you? I think the best thing to do is go ahead, arrive at the total cost and pay it. Didn't you say 26 percent of all the insured capital was in Chile at one time?

Mr. MILLS. Twenty-six percent of the worldwide portfolio was in Chile in 1968.

Mr. PASSMAN. That is not chargeable to you, but I think certainly it is good to make a correct picture so we will know where we stand on this matter.

OPIC'S LOAN PROGRAM

You also have, and I sure don't like this part of your operation, a lending program. Let me read into the record at this point the different agencies who are now making loans. You have the Agency for International Development's development loan fund, the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the International Monetary Fund, the Inter-American Development Bank, the Asian Development Bank, the foreign military credit sales program, the Export-Import Bank long-term credits, the Export-Import Bank regular operations, the Export-Import export expansion program, the Public Law 480 economic development loans, the Public Law 480 Cooley loans, the Overseas Private Investment Corporation, and the Inter-American Foundation. There are 15 specific agencies making loans, are they not? Now, you have had to get into this business. How much funds are you asking for loans?

Mr. MILLS. Nothing.

Mr. PASSMAN. You are going out of the lending business?

Mr. MILLS. No. We have the subscribed capital of $40 million.

Mr. PASSMAN. How much do you anticipate you are going to disburse for loans in fiscal 1974?

Mr. MILLS. We provide loan funds in two ways, Mr. Chairman. We have our $40 million capital, which has been paid in, and we are not requesting additional capital in fiscal year 1974. The second way is we guarantee loans made by American banks. That is disbursed by the American banks or American insurance companies, not by us.

Mr. PASSMAN. You do make direct loans.

Mr. MILLS. We make direct loans with our capital.

Mr. PASSMAN. You know exactly what I am referring to.

Mr. MILLS. Out of our $40 million capital.

Mr. PASSMAN. How many loans have you made, to what countries and in what amounts?

Mr. MILLS. Can I submit that for the record?

Mr. PASSMAN. Let's discuss it a little bit because members of your very board said as long as they were on the board they would not permit you to make any loans, and I mean important members of your board.

Mr. MILLS. We have made this year two guarantees.

Mr. PASSMAN. I am not talking about guarantees, but your loans, Mr. Mills. Let's not mix the two.

DETAIL ON LOANS

Mr. MILLS. We have made eight direct loans.

Mr. PASSMAN. Who were they made to?

Mr. MILLS. Three to Indonesia.

Mr. PASSMAN. Wait now if you will. The name of the company?

Mr. MILLS. United Coconut.

Mr. PASSMAN. That is one. How much?

Mr. MILLS. $500,000.

Mr. PASSMAN. The next one.

Mr. MILLS. Daralon Textile, $1 million.

Mr. PASSMAN. Proceed.

Mr. LONG. The country.

Mr. MILLS. Indonesia.

Mr. MILLS. Cargill do Brazil, $1,250,000, Seaboard Overseas, Africa regional. This is the one which exports grain from the United States which I brought up here last year. P. T. Kayan River in Indonesia, $1.6 million, Residence Pauline in Haiti, $415,000; Olin Kraft in Brazil for $2.5 million and Compania de Papeis to Brazil. Total loans made is $19,915,000, less participations $4,500,000, for a net loan portfolio of $15,414,000.

Mr. PASSMAN. That is the total amount of loans you have made since you got into that business.

Mr. MILLS. That is the total amount, that is correct.

Mr. PASSMAN. Don't you think you really ought to stay in the insurance business? You will find the committee in all probability will want to back you up because I think you are doing an excellent job in the insurance business but it seems every agency of Government has to start up a little loan office. To be frank with you, there are many others I could have mentioned for the record, but they are so voluminous I decided to cut them out, like the Pan American Development Foundation. We make the grants and they set up a little lending agency, some kind of a building and loan or a little side street bank.

TERMS OF LOANS

Mr. MILLER. Could you tell us the terms of those loans, what length of time and what interest rate?

Mr. MILLS. Yes, our long terms are all commercial. The average interest rate, the lowest is 8.5 percent and the highest was 12 percent. Many of the loans have profit features such as convertible debentures. What we are trying to do frankly is to get sufficient income coming in from good projects, which we think will help the United States and will help the developing countries, to enable the fund to average 10 percent on $40 million. That is $4 million which is available for reserves or for additional lending.

Mr. MILLER. Time?

Mr. MILLS. Maturities will run from 5 to 15 years.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. PASSMAN. The point is we have 15 agencies presently making loans, some of them up to the billions of dollars a year, do we not?

Mr. MILLS. I believe we do.

Mr. PASSMAN. It would appear to me that you could very well afford to stay in the insurance business and not start another lending agency, and that is exactly what you are doing. You are up to $15 million now. Don't you like the insurance business better?

Mr. MILLS. I think the insurance business is a good business. I also think, Mr. Chairman, that the loan financing is important for encouraging investment in the LDC's and helping companies compete in these important markets.

Mr. PASSMAN. You could lend up to $40 million but you have only actually disbursed a little over $15 million in loans.

Mr. MILLS. We disbursed net lending of about $15 million.

LOANS MADE BY OPIC

Mr. PASSMAN. Will you place in the record the total amount of loans made? The Export-Import Bank could make loans in that amount early some Monday morning, couldn't it?

Mr. MILLS. Probably Sunday morning; but there is a big difference between setting up a business overseas and simply exporting from the United States.

Mr. PASSMAN. They are dealing in billions of dollars, and it is to handle U.S. commodities, to finance our exports. I just don't understand why you people along with all the other agencies now have to start a little bank within your organization. I don't want to deal in personalities, because all of you are fine people. I was assured that you people just wouldn't be permitted to get into this business.

Dr. Hannah is on your board.

Mr. MILLS. That is correct, Dr. Hannah is our chairman.

Mr. PASSMAN. And he is a very fine man. You know what he said. I asked a question and he said ". . . I am only saying so long as I am chairman of the board of OPIC we are not going into the loaning business."

So many times you people do just the opposite of what you say you are going to do. Maybe not the smartest people are on this side of the table, but we are the ones elected to oversee this spending. I would hate to think we have reached the point where the bureaucrats downtown ask for funds and say, "Give it to us and keep your mouths shut. We will make up our minds what to do with it." The hearings indicate that has been the practice, not so much you, but a good many of these agencies. List in the record if you will the loans you have made and to what countries.

[The information follows:]

ACTIVE DIRECT INVESTMENTS, AS OF MAR. 31, 1973

Name of project	Interest rate (percent)	Fiscal year approved	Country	Amount authorized	Amount disbursed
PICA	7.39	1971	East Asia regional	2,000,000	2,000,000
Korea Capital Corp	[1] 9	1972	Korea	[1] 450,000	125,000
	[2] 7½			[2] 250,000	
Total				700,000	
ADELA	7¼	1972	Latin America regional.	3,000,000	3,000,000
Indian Motorcycle Co	7	1972	Taiwan	200,000	200,000
P. T. United Coconut	12	1972	Indonesia	500,000	
P. T. Daralon Textile	7	1972	do	1,000,000	
Cargill Agricola S.A	8½	1972	Brazil	2,500,000	2,500,000
Less participation				(1,250,000)	(1,250,000)
Total				1,250,000	1,250,000
Seaboard Overseas Ltd	8¾	1972	Africa regional	2,000,000	2,000,000
P. T. Kayan River	11	1972	Indonesia	1,600,000	1,600,000
Residences Pauline S.A	12	1972	Haiti	415,000	415,000
Less participations				(415,000)	(415,000)
Total				0	0
Olinkraft Celulose E Papel	8½	1972	Brazil	2,500,000	
Less participations				(1,500,000)	
Total				1,000,000	
Companhia de Papeis	8½	1972	do	3,500,000	
Less participations				(1,400,000)	
Total				2,100,000	
Indian Motorcycle	7	1973	Taiwan	250,000	250,000
Total				20,165,000	12,090,000
Less participation				(4,565,000)	(1,665,000)
Total				15,600,000	10,425,000

[1] A notes.
[2] B notes.

LOAN IN BRAZIL

Mr. PASSMAN. I know there is some particular arrangement with the country where their companies are going to invest the money, and I am reasonably sure they are paying about one and a half times as much as they could get the same money in New York; is that about right?

Mr. MILLS. The company is paying more; that is correct. OPIC financing does not compete with U.S. private banks.

Mr. PASSMAN. It is about one and a half times. I just can't understand these things.

Mr. MILLS. The rate was about 6 percent. We made it at about 8.5 percent.

Mr. SHRIVER. Why did you make the loan?

Mr. MILLS. Because we think this is a good project which we think will help the development of Brazil.

Mr. SHRIVER. Why didn't they go to one of the other regularly authorized agencies that have long been in the loaning business, such as IDA or the AID program?

Mr. MILLS. Because they don't qualify for soft terms. We have to loan on commercial terms. Our legislation requires that we be self-

supporting in our financing. This is not an aid program. This is a lending program done on commercial terms to assist the developing countries, and to assist the U.S. private businesses. It has got to be a combination of the two.

Mr. SHRIVER. You mean all these other agencies enumerated by the chairman, that they couldn't get a loan because of their capability of repaying.

[Discussion off the record.]

USE OF CAPITAL ACCOUNT

Mr. LONG. This is your capital that you want to use to back up your guaranties in case any of them go sour, is that right?

Mr. MILLS. We want to use the Corporation's capital as one means of making the financing program self-sustaining. Maybe Mr. Mays can answer your specific question. The capital in my opinion could be available for backing up quantities but I don't believe it is. Could you answer that question?

Mr. MAYS. The capital of the Corporation is available for lending and ultimately for the Corporation's liabilities.

Mr. LONG. Would you think a prudent company, which is in the business of insuring loans all over the world in countries which suddenly expropriate companies, like Chile and other countries have done, and needed money to pay off these claims when the time comes; would you think it was a very prudent company that would take those moneys that you will need in a hurry and put them into countries like Brazil and Indonesia? Is that a very sound use of your money?

Mr. MAYS. I might try to answer that in terms of the statute and what OPIC is authorized to do, Congressman Long. The statute requires us to maintain a 25-percent reserve for our guaranties. The capital of the Corporation, which is $40 million, is the only fund at present for these direct investments. We are authorized there to take convertible debentures on our lending, which enables us to share in the profits of the successful enterprise, to help cover those projects which may not turn out successfully. So you need this to provide OPIC a share of the profits in the successful enterprises, to offset its losses, in order to be self-sustaining as the Congress directed.

Mr. LONG. Aren't Indonesia and Brazil troubled areas?

Mr. MILLS. Every company invests its capital and that is what we are trying to do.

Mr. LONG. Do any American insurance companies invest their capital in places like that?

Mr. MILLS. Maybe not in places like that, but that is not their business. They may invest in Penn Central.

Mr. LONG. Do they do that intentionally?

Mr. MILLS. They intentionally invest it in Penn Central, yes.

Mr. LONG. Knowing that it is going to be as bad a situation?

Mr. MILLS. I hope that Olin Kraft——

Mr. YATES. Congress put in $250 million.

Mr. LONG. We are as dumb as they are?

Mr. PASSMAN. Mr. Mills, I think you are doing a good job with your insurance business.

Mr. LONG. He is doing a good job of squirming right now.

CHANGES IN PROGRAM OPERATION

Mr. PASSMAN. I want to be fair about this thing. Since you took over this operation you put the insurance program on a business basis.

Mr. MILLS. We have tried.

Mr. PASSMAN. You can no longer have 26 percent of the total investment in any one country. Your board has limited it to 10 percent and your average is about 6 percent. I think you are moving in the right direction.

Mr. MILLS. Thank you.

Mr. PASSMAN. I think had we been operating on the same basis as you were operating in the past——

Mr. MILLS. We wouldn't have had these problems.

Mr. PASSMAN. You would have had a substantial profit for the U.S. Treasury rather than a potential red figure.

Mr. MILLS. That is correct; we believe OPIC's new insurance is much more sound.

Mr. PASSMAN. You are doing a good job. I am not criticizing OPIC for its present operation other than the lending portion.

OBJECTION TO LOAN PROGRAM

This year, if you take all facets of foreign aid and foreign assistance, good, bad, and in between, the requests are going to top $18 billion. This $18 billion is going to be available either in grants or loans all over the world. We are operating in 101 nations now. It would appear to me you could do a much better job if you would stick to the insurance business. Where you put in $1 to some country for loans some other facet of aid may be putting in $100, isn't that true?

Mr. MILLS. In certain countries they may.

Mr. PASSMAN. I am talking about on the average. Some of the people in your own agency oppose——

Mr. MILLS. Not private business.

Mr. PASSMAN. They oppose just as strongly as I do that the OPIC people are in the money lending business, don't they?

Mr. MILLS. I am not sure to whom you are referring.

Mr. PASSMAN. I am referring to members of your own board. I read it in the record a while ago. I think he is the greatest AID director we ever had. He feels just as I do about this thing. He said he would never permit you to get into that business as long as he was on that board. Is he still on the board?

Mr. MILLS. He told me he meant concessional lending and I think he is absolutely right. We don't make concessional lending.

Mr. PASSMAN. Let me read from the 1972 hearings. "* * * I am only saying so long as I am Chairman of the Board of OPIC we are not going into the loaning business." I am not reading anything out of context.

Mr. MILLS. We submitted a statement in that regard last year about a misunderstanding.

Mr. PASSMAN. I don't want to pull this old horse back over the coals, but I want you to know that you are almost alone in the idea of getting into the money lending business. Do you have any language that you could suggest that we could write into our bill to take you out of that business?

Mr. MILLS. Mr. Chairman, what I am trying to do is put the lending business and the guaranty business which we inherited, on the same business like basis that I am doing to the insurance business. When we took over this business they had $12 million of losses and about $500,000 of income.

Mr. PASSMAN. I am only saying that I wish you would, and I think possibly members of your own board endorse my position, get out of this money lending business and stay in the insurance business.

Mr. MILLS. We do have an income of about $7.5 million on our financing operations.

Mr. PASSMAN. You had to borrow this money at 6 percent before you could possibly make loans to these doubtful countries. Let's see if you agree with this. You are making loans?

Mr. MILLS. We have made approximately $15 million, net of participations.

Mr. PASSMAN. You are making some loans?

Mr. MILLS. Yes, sir.

Mr. PASSMAN. Let me rest my case there. Whatever I say, you are going to come right back and get completely off the subject and try to tie something else into it. I just don't think you should be allowed to make loans but until the law is changed or we write in restrictive language you can continue doing it, can't you?

Mr. MILLS. Thank you, Mr. Chairman.

ENCOURAGING INVESTMENT ABROAD

Mr. PASSMAN. Mr. Mills, let's look at another angle. With the present international monetary situation, the shape we are presently in concerning our domestic economy, and facing the fact that over $80 billion is held outside of the United States, should OPIC now be encouraging countries to invest abroad at increasing rates?

Mr. MILLS. Mr. Chairman, this is a question——

Mr. PASSMAN. I just asked you a good question.

Mr. MILLS. A very good question, this is precisely right. The sole positive element in the capital accounts section of United States balance of payments today is its earnings on its investments abroad. These investments are now having a positive balance-of-payments effect.

Mr. PASSMAN. A what?

Mr. MILLS. A positive balance-of-payments effect of over $5 billion. We also estimate U.S. nonpetroleum investments in developing countries run between $300 and $500 million positive balance-of-payments effect each year. Today it is the overseas investments which are bringing a return which we expect will increase.

Mr. PASSMAN. Aren't you looking out into the future 40 years when you make that statement? You are saying if certain things happen in future years then it will affect the U.S. payment position. Isn't that really what you are saying for the record?

Mr. MILLS. No, we are having it today.

Mr. PASSMAN. It doesn't have its effect tomorrow.

Mr. MILLS. Today the net investment income in 1971 was $9,200 million.

Mr. PASSMAN. How about a new company going overseas, what would be the immediate effect on the balance of payments?

Mr. MILLS. It would depend on how they financed it, and the initial U.S. exports associated with the project. Many of these companies going abroad finance in Europe, Japan, and all around the world, to launch a project.

Mr. PASSMAN. Mr. Mills, let's be fair. Before we complete our hearings this year no doubt we will listen to 100 fine witnesses like you, and I can assure you in advance, and make you a little bet, that every one of them will say "We don't hurt the balance of payments, we help it." But it follows nevertheless that we had our first trade deficit since 1888 in 1971 of some $2 billion. We also had the second trade deficit in 1972 of some $6.4 billion.

Mr. MILLS. That is right.

Mr. PASSMAN. Isn't it true that in the past 20 years by our policies of trying to be everything to everybody everywhere on borrowed money and, at the expense of unborn generations that our gold reserves have dropped from $23 billion to about $10 billion? As we sit here as friends across the table this afternoon and discuss the continuation of the foreign aid program of which OPIC is only one little piece, there are $80 billion U.S. dollars floating around all over the world that was due yesterday, not today or tomorrow but due yesterday, and we don't have the money to pay for them, do we?

Mr. MILLS. That is correct, Mr. Chairman.

Mr. PASSMAN. And nations and individuals are running from the dollar.

Mr. MILLS. That is correct.

Mr. PASSMAN. Taking the dollar and trying to turn it into some other currency. Isn't that the position we have gotten ourselves into?

Mr. MILLS. By giving——

Mr. PASSMAN. We are not blaming OPIC for all of it but we have gotten ourselves into that position; haven't we?

Mr. MILLS. Mr. Chairman, we must differentiate between government-to-government aid and what private business is doing.

Mr. PASSMAN. You are talking about taking private businesses abroad.

Mr. MILLS. That is what is bringing the surplus.

Mr. PASSMAN. You are going to repudiate your own testimony. The statistics I have cited are true; are they not?

Mr. MILLS. Of the government to government? That is correct.

Mr. PASSMAN. Government to government. Some hotels won't even take our money over there. They run from it, and tourists have to go out and discount the dollar to get money to pay their hotel bills; don't they?

Mr. MILLS. I haven't been abroad recently.

Mr. PASSMAN. What a mess we are in. About 5 years ago under the previous administration black satchel men were sent all over the world to every nation they could find with a surplus in the foreign exchange account and we tried to borrow money from them. We got out to Thailand and found that those people had a $1 billion surplus in their foreign exchange account. We tried to borrow a quarter of a billion and they laughed at us, so finally we compromised. We borrowed $100 million U.S. dollars from Thailand at 6-percent interest to be repaid in 4½ years, isn't that true?

Mr. MILLS. I don't happen to know that particular transaction.

Mr. PASSMAN. Let me make it as a statement of fact. It is true. Are you familiar with it?

Mr. MAYS. No, sir, I am not.

Mr. PASSMAN. You mean you are a part of this aid distributing business and you don't know the mechanics of the way this thing operates? That is correct, and I believe the $100 million is due in about 90 days. We don't have the money to pay it. What are we going to give them? We might have to give them another bond. Undoubtedly we are not going to give them our gold. This is the mess we are in and I'm afraid I don't actually know how to contribute greatly to straightening it out, but we just cannot continue, in the future, foreign aid programs at the same magnitude that we have had in the past.

This year, as I said earlier, we put all the statistics together right out of the budget, and foreign aid requests run over $18 billion. Yours is only one little piece of it.

Mr. MILLS. Our reserve funds do not go abroad, Mr. Chairman. The appropriation that we are requesting would be paid to U.S. firms, if a claim payment is made.

Mr. PASSMAN. How about the Brazil loan? That certainly went abroad.

Mr. MILLS. The lending is a separate matter.

Mr. PASSMAN. You have the money, take it abroad and build plants. You don't send the labor down from America to build those plants. You pay it out of this loan to build those plants, don't you?

Mr. MILLS. Mr. Chairman——

Mr. PASSMAN. You are building that plant with locals mainly, aren't you, local laborers?

Mr. MILLS. Yes, with Americans and in fact there was an American engineering company.

Mr. PASSMAN. But mainly to build that plant for which you made the loan, it will be locals and they will be paid out of that loan.

Mr. MILLS. Loan funds are often used for construction costs including U.S. equipment purchases, contractor services, and local labor and supplies.

Mr. PASSMAN. I want to be sure that the record shows that they did go abroad.

Mr. MILLS. Brazil offers us an example why U.S. private industry must make these investments. An article which appeared on February 26 in the Wall Street Journal says, "Japan's Brazilian investments worth only a few million dollars a dozen years ago, now exceed $500 million. The total should pass $1 billion mark by mid-decade. A Japanese group predicts more than $2 billion more will be plowed into Brazilian ventures in the next 5 years." That is what is happening to our export markets. The Japanese are getting them by investing in them.

Mr. PASSMAN. But it follows nevertheless we are being outsmarted at every turn. You know these nations are not running from the yen. They are not running from the mark. They are not running from the Swiss or the French franc. We are in trouble, aren't we?

Mr. MILLS. On our overall balance of payments we are in trouble. We are trying to correct it.

Mr. PASSMAN. Not only do we have $80 billion floating around the world that were due yesterday but we are also increasing the public debt in this country; isn't that true?

This year people jump on the President about impounding funds. I don't like the priority system he used but I commend the man because even after impounding the funds we are still going to finish this fiscal year with a $28 billion deficit. Somewhere along the way we are going to have to bring this thing under control. As I am concerned, first priority goes to American projects. Before we finish the hearings this year, we will make a record that there are literally thousands of projects being financed abroad with very, very doubtful justification, while the same types of projects are being suspended in this country.

BENEFITS TO THE UNITED STATES FROM OPIC

I would like you to provide detailed facts for the record showing just how OPIC's programs benefit the U.S. economy and the American taxpayer.

Mr. MILLS. In answering your question it is important to look at how we do our business and what policies we follow. OPIC is selective. OPIC analyzes and screens every application for investment assistance to be sure that the proposed project, while benefiting development, will benefit the United States and will not be harmful to domestic employment, or U.S. balance of payments. Overall, we believe private U.S. investment in the developing countries produces significant net benefits to both U.S. employment and the U.S. balance of payments. However, some investments do not, and these we try to screen out in examining applications for OPIC services.

OPIC has strong supplemental eligibility criteria which clearly prohibit any assistance to "runaway industries," manufacturing projects substantially aimed at serving the U.S. market (unless there are clear net benefits to the U.S. economy in the particular case), any agricultural project to produce goods in U.S. surplus which would have the effect of injuring U.S. agriculture, any project with significant proposed procurement from developed nations other than the United States, and other types of investments.

An in-depth study was recently completed by Harbridge House, Inc., an independent Boston research firm, on 20 mature, operating projects that had been assisted by OPIC's predecessor, AID. The study attempted to determine the balance-of-payments effects of these overseas investments compared to what would have been the situation had each investment not been made. The findings were that the projects as a group had a highly favorable effect on the U.S. balance of payments. Capital reflows from the projects to this country in the form of fees, dividends, interest, and loan repayments substantially exceeded the $65 million total capital investment, usually over a period of 5 years or less. U.S. exports of capital equipment and supplies to these projects exceeded $322 million over the period studied. Against this strictly positive benefit to the U.S. balance of payments and trade accounts, the study found only insignificant and usually short-term offsetting losses of U.S. exports resulting from the operation of these companies.

The vast majority of OPIC-assisted projects are in the fields of mineral extraction, local service operations, and manufacturing to serve local or regional markets that cannot be reached competitively

from a U.S. production base. Such projects have increased and will continue to increase our exports and employment as they purchase needed equipment and materials.

Only a comparatively few of the projects which OPIC has assisted are even in general fields of operation which might be considered as possibly having some negative impact on U.S. employment. However, all these projects passed OPIC's screening processes and will not harm our domestic employment or balance of payments.

On the other side of the ledger, in fiscal year 1972 and the first half of fiscal year 1973, OPIC rejected six formal applications for insurance because the investment would harm employment, and many other potential applicants were disqualified and turned down before they ever submitted formal applications. The following cases are a fair sampling of our decisions during the past year. They illustrate just how rigidly OPIC applies its policy guidelines and how we use our selectivity to encourage or discourage U.S. private investments consistent with the public interest.

[The information follows:]

Inquiry by a U.S. cement manufacturer proposing to build a plant in a Central American country to produce substantially for the Southeastern U.S. market. Rejected.

Application by a U.S. electric goods manufacturer to produce radios in Singapore in order to retain a share of the U.S. market formerly served by its U.S. plant, which had closed because its costs were uncompetitive with imports. Rejected.

Application by a U.S. publisher to produce an encyclopedia in Israel for sale in the United States. Rejected.

Inquiry of a U.S. electronics firm planning to ship an already closed down plant to Yugoslavia to manufacture circuitry for European and probably also U.S. markets. Rejected.

Inquiry by a U.S. manufacturer planning to produce children's clothing in several Central and South American countries, partially to serve the U.S. market. Rejected.

Request for approval in principle of projects to undertake labor-intensive parts of production of shoes in Taiwan or Brazil, for ultimate sale in the United States. Rejected.

Application of a recreational vehicle manufacturer to produce components in Taiwan for final assembly and sale in the United States. Rejected.

Application of a U.S. investor to revive a U.S. motorcycle company, which had been put out of business years ago by imports, by setting up a plant in Taiwan to produce lightweight motorcycles for the U.S. market. Approved, because its U.S. sales would be entirely in competition with imports from Japan, there being no U.S. production of lightweight motorcycles and no possibility of competitively producing them in the United States; and because the investment would contribute developmental benefits to Taiwan and dividend earnings for the United States which otherwise would go to Japan.

Inquiry by a U.S. garment maker proposing investment in a project to transfer the sewing and finishing of a line of ladies' garments from the United States to El Salvador, to serve the U.S. market. Rejected.

Application for insurance on a project to assemble ladies handbags in the Dominican Republic for sale substantially in the United States. Rejected.

Application by a U.S. textile manufacturer to invest in an Indonesian company to produce textiles exclusively for the Indonesian market (which cannot be reached competitively by U.S. textile exports). Approved, with a covenant absolutely barring any exports by the company to the United States, with severe financial penalties for violation of the covenant.

Foreign investment in assembly and reexport operations just across the Mexican border from the United States has been severely criticized as injuring domestic employment and the national balance of payments. OPIC does not and never has had any programs or operations

in Mexico and has not in any way encouraged or assisted the establishment of these Mexican assembly facilities.

There is an additional important way in which OPIC is benefiting the United States, and this is OPIC's ability to settle investment disputes which might otherwise strain relations between the United States and a foreign nation.

U.S. foreign relations have been or continue to be severely strained due to conflicts over the expropriation of several uninsured investments in Latin America. On the other hand, OPIC has been able to contribute to businesslike settlement of differences of avoidance of disputes over two dozen insured investments.

RESERVES AND CLAIMS ON HAND

Mr. PASSMAN. Could you tell the committee the total reserves you presently have on hand and please break that down into insurance and guaranty reserves?

Mr. MILLS. Our present insurance reserve is $126,357,323 and our guaranty reserve is $75 million.

Mr. PASSMAN. Could you tell the committee the total claims that have actually been filed, total claims that you feel will be filed in the near future and total claims that could possibly be filed at a later date? What would the grand total amount to?

Mr. MILLS. As of January 31, 1973, there have been 18—17 companies—actual claims filed totaling $113,717,563. In addition, OPIC faces seven probable claims totaling $63,376,768 and 12 possible claims totaling $56,107,211. Taking all these categories together the total would be $233,201,542.

Mr. PASSMAN. Would you provide the committee with the name of the company and the amount of the major claims now pending before OPIC?

Mr. MILLS. As of January 31, 1973, the following major claims were pending:

Belbagco, Inc., $1,836,645 expropriations; $762,769 war risk.
Bank of America, $2,913,021 inconvertibility.
Cerro Corp., $14,201,000 expropriation.
Fearn Foods, Inc., $612,820 expropriation.
First National City Bank, $140,000 expropriation.
Georgia Pacific Int. Corp., $150,000 expropriation.
International Chemical Fibers, $29,494 inconvertibility.
I. T. & T. Corp., $92,500,000 expropriation.
NIBCO, Inc., $111,000 expropriation.
Ralston Purina, $212,000 expropriation.
Ford Motor Co., $276,000 expropriation.
Socomet, $60,000 inconvertibility.
Vinnell Corp., $26,392 war damage.

CHILE SITUATION

Mr. PASSMAN. What are the total claims pending for Chile alone?

Mr. MILLS. There were 12 actual claims pending as of January 31, 1973, by U.S. investors in Chile. The estimated value of these claims was $110,771,515.

Mr. PASSMAN. Would you provide for the record what U.S. aid has been provided to Chile from any source over the past 2 years?

Mr. MILLS. OPIC has not issued any insurance or made any loans or guarantees of new investments in Chile in the last 2 years. The only activity of OPIC has been to settle expropriation and inconvertibility claims arising from previous contracts outstanding Chile.

As for U.S. aid to Chile from other sources, AID has not made any new loans to Chile in the past 2 years. AID expenditures in Chile have averaged about $1 million over the past 2 years, and currently are operating below that amount. Most of this money is assisting small people-to-people training and community development programs and narcotics control efforts. The food-for-peace program has operated at a level of between $2 to $3 million during the past 2 years. During this time, the Peace Corps has had about 40 volunteers in Chile, working mainly in conservation efforts, such as reforestation. I do not have any knowledge or data about any programs or operations that other agencies might have in Chile.

Mr. PASSMAN. Could you tell the committee if negotiations are still being conducted with Chile concerning the settlement of claims by American firms which had their operations expropriated.

Mr. MILLS. Yes, several companies are still negotiating with the Government of Chile.

CLAIMS PAID

Mr. PASSMAN. What claim payments has OPIC made in the last year?

Mr. MILLS. Total net claims paid in calendar year 1972 were $13,031,367 after recovering $516,918.

CONTINGENT LIABILITY

Mr. PASSMAN. What is the total contingent liability of OPIC at the present time when you consider each program and include the current and standby coverages?

Mr. MILLS. As of March 31, 1973, OPIC had outstanding $794 million of current inconvertibility insurance and $2.2 billion inconvertibility insurance on standby, for a total of $3 billion. OPIC outstanding current expropriation insurance totaled $2.5 billion with an additional $873 million on standby, for a total of $3.4 billion. Current war damage insurance totaled $2 billion, with $712 million on standby, for a total of $2.7 billion.

REDUCING EXPOSURE

Mr. PASSMAN. In view of the situation that has taken place with regard to Chile, do you think OPIC might want to decrease her future exposure by possibly only insuring or guaranteeing 25 percent of the total investment?

Mr. MILLS. A 25-percent coverage would not be an incentive to investors, would reduce our influence on investor conduct, reduce income, and reduce spreading of our insurance risks. In 1970, we tried hard to persuade investors in Korea to accept only 50-percent coverage. The best we could do was to arrange for coverage to begin at the 75-percent level, and decline as investors recovered their initial invest-

ment. We now insure all large and sensitive projects only on a declining coverage basis, with a ceiling of 50-percent coverage in and after the seventh year.

Mr. PASSMAN. Last year, you indicated that OPIC was reducing its exposure by reinsuring some of its insurance with private underwriters. Could you tell the committee how much you have reinsured, with what company, and how does this reinsured total compare to OPIC's total contingent liability?

Mr. MILLS. During calendar year 1972, OPIC reinsured a total of $284 million, or approximately 12 percent of its outstanding current expropriation portfolio, with private underwriters. For calendar year 1973, the total amount of reinsurance has been increased to $410 million, or approximately 17 percent of OPIC's outstanding current expropriation portfolio. The reinsurance policy is written on a 50-percent quota share basis, with a maximum per country limitation of $14 million. This means that in approximately 80 percent of the countries in which OPIC either has expropriation coverage outstanding, or is currently offering such coverage to U.S. investors, the reinsurers will pay 50 percent of any expropriation claim judged valid by OPIC. In the remaining 20 percent of the countries, the reinsurers' percentage participations in claims payments range below 50 percent because of the size of OPIC's current exposure, but nevertheless provide a maximum commitment of $14 million per country.

The bulk of the 1973 reinsurance has been placed with syndicates of Lloyds of London. Also participating in smaller amounts, however, are 18 British insurance companies, 2 other European insurance companies, and the following 7 American insurance companies: Insurance Company of North America (Philadelphia), Liberty Mutual (Boston), Home Insurance Co. (New York), North Western National (Milwaukee), American Agricultural Insurance Co. (Indianapolis), Unionamerica Insurance Co. (Los Angeles), and Bellefonte Insurance Co. (Covington, Ky.).

Mr. PASSMAN. If I am not mistaken, you reinsured some of your exposure with the U.S.S.R.'s Black Sea and Baltic Insurance Co. Could you tell the committee how this procedure works and how it is beneficial to OPIC to operate in this manner, does the fee OPIC charge the U.S. company more than offset the fee charged by the private underwriters and when the coverage is reinsured, is OPIC completely excluded from any liability on the reinsured coverage?

Mr. MILLS. The Black Sea and Baltic Insurance Co. did participate in OPIC's 1972 reinsurance placement, but did not renew for 1973. Black Sea and Baltic is a registered British insurance company which is owned by Ingosstrakh, a U.S.S.R. state insurance agency. The reinsurance of OPIC's expropriation risks was offered on the London market as a purely commercial transaction, and Black Sea and Baltic participated on this basis.

In its reinsurance efforts, OPIC is seeking not only to reduce the amount of its own liability by means of risk sharing with the private sector, but also to multinationalize the coverage of the risks which it has assumed. In this way, a country which is considering expropriating a U.S. investment must take into account the effects its action will have not only on the United States but on other countries which are involved through reinsurance as well. For this reason, the Soviet par-

ticipation in insuring U.S. investments overseas against expropriation was particularly noteworthy and, in my opinion, quite beneficial to both the U.S. private investor and the U.S. Government.

The reinsurers receive as a fee 85 percent of the premiums paid on that portion of the current expropriation portfolio which they have reinsured. Thus, not only does the fee paid by the U.S. company more than offset the fee charged by the private underwriters, but 15 percent is left over for OPIC.

Under the terms of the reinsurance policy, OPIC retains absolute authority to determine the date of an expropriation, the existence of expropriatory action, the nature, time and liability therefor, and all other relevant factors under the insurance contract. The reinsurer simply pays his proportionate share of any claim which OPIC has judged to be valid.

As is the custom with reinsurance, however, the reinsurance contract is between OPIC and the reinsurers, while the investment insurance contract is between OPIC and the U.S. investor. Thus, the U.S. investor looks to OPIC for payment under this contract, and OPIC looks to the reinsurers for reimbursement under the reinsurance contract. Should the reinsurers default on a required payment, OPIC would still be required to pay off the investor in full. It should be pointed out, however, that in its over 300 years of operations, Lloyds of London has never defaulted on a valid claim.

INSURANCE AND GUARANTY FEES

Mr. PASSMAN. What fees do you charge for insurance and guaranties?

Mr. MILLS. I will provide that for the record.

[The information follows:]

	Current insured amount		
	Ordinary projects	Large or sensitive projects	Standby amount
Equity and other nonloan investments:			
Inconvertibility	3/10 percent per annum	3/10 percent per annum	1/4 percent per annum.
Expropriation	5/10 percent per annum	5/10 percent per annum	Do.
War, revolution, and insurrection.	do	5/10 percent per annum	Do.
Loan investments:			
Inconvertibility and expropriation.	7/10 percent per annum on outstanding balance.	9/10 percent per annum on outstanding balance.	1/2 percent per annum on amount not drawn down.
Inconvertibility and war	9/10 percent per annum on outstanding balance.	do	Do.
Inconvertibility, expropriation, and war.	1 3/10 percent per annum on outstanding balance.	1 5/10 percent per annum on outstanding balance.	Do.

Mr. MILLS. Fees for OPIC expropriation coverage may vary within 2/10 percent higher or lower than the above schedule in usual instances depending upon OPIC's evaluation of the degree of risk involved in insuring the project.

A registration fee of $100 is charged for processing applications for insurance on proposed investments of $100,000 or more; the registration fee is $50 if the proposed investment is less than $100,000.

FINANCIAL GUARANTIES

OPIC's base guaranty fee is 1¾ percent, to which is added a variable fee depending upon the risk involved in the particular project. OPIC will also attempt, when possible, to share in the future profits of a project it assists in order to further compensate for its risks.

RUSSIA AND RED CHINA

Mr. PASSMAN. Does OPIC have any possible dealings on the books or in the future with Russia or the People's Republic of China?

Mr. MILLS. No. Our statute prohibits this.

IT & T GUARANTIES

Mr. PASSMAN. As we all know, IT & T has been in the news lately in connection with the Senate hearings on multinational corporations. It has been indicated that IT & T may have tried to prevent the election of Chile's President Allende. If it was found that IT & T in fact did attempt to interfere with this election, would that void the claim that IT & T presently has pending before OPIC and what is the amount of the IT & T claim?

Mr. MILLS. The IT & T claim may go to arbitration. Outside counsel advises us that it would be inappropriate for me to comment on the IT & T claim in any way so long as the question of IT & T's rights to compensation is still undecided.

International Telephone and Telegraph Corporation Sud America, a wholly owned subsidiary of IT & T, has filed a claim with OPIC in the amount of $92,567,000.

CONTINUING RESOLUTION FUNDS

Mr. PASSMAN. On page 1 of the justifications you indicate that OPIC will not receive the $12.5 million provided in the continuing resolution for fiscal year 1973. Would you please explain to the committee why this money will not be provided to OPIC?

Mr. MILLS. That statement will be corrected, Mr. Chairman. That original submission was prepared on the basis of the situation existing when we had a continuing resolution that expired February 28. We prepared our fiscal year 1974 request on the basis of receiving at least $12.5 million for reserves in fiscal year 1973, but we did not enter it in our books because the appropriations process had not been completed. We now understand the final continuing resolution to be equivalent to a regular appropriation. These reserves remain available until expended and should now be entered on our books.

CANCELLATION OF CONTRACTS

Mr. PASSMAN. Can OPIC cancel these insurance and guaranty contracts if it was deemed desirable to reduce their exposure?

Mr. MILLS. No. It would defeat the purpose of providing reasonable long-term protection through the coverage. In general, cancellation by the Government is possible only by reason of a return on the investor's capital, fraud or material misrepresentation by the investor, nonpayment of fees, or failure by the investor to comply with specific obliga-

tions of the contract. Since about 50 percent of our coverage relates to loans, about 7 percent of the portfolio per year is automatically canceled as loan repayments occur.

STANDBY OPTIONS

Mr. PASSMAN. Does OPIC have to honor the standby options for insurance or is there language saying that additional coverage will have to be negotiated at a later time?

Mr. MILLS. OPIC is obliged to honor the standby options in existing contracts so long as the contract fee is paid by the investor. In March 1971 we increased our fees for standby coverage in new contracts from an effective earlier rate of 2/10 of 1 percent to 3/4 of 1 percent (an increase of 375 percent). About this time we also imposed new requirements reducing the amount of coverage for war and expropriation an investor can allocate to stand by in new contracts, and increasing the amount that must be carried on current. About 2/3 of the total of existing standby coverage relates to insurance for convertibility. This insurance has produced a fee income far in excess of losses over the 25 years of its existence. In general, we have retained standby coverage in our new contracts because for business reasons we believe we are receiving a fee income disproportionate to the risk assumed in writing standby coverage.

TERMS OF CONTRACTS

Mr. PASSMAN. For what period of time are these insurance policies written?

Mr. MILLS. In the past, virtually all contracts were written for a duration of 20 years. We have continued to write 20-year policies for most investments, but have shortened the term of coverage on large and/or sensitive equity investments to 12 years. Our contracts covering debt investments are being written more restrictively than in the past and usually are now no longer than the schedule of repayments. We limit debt coverage for large or sensitive projects to 12 years or less.

Mr. PASSMAN. Is the premium paid each year?

Mr. MILLS. Yes. The premium is paid in advance each year on the anniversary date of the contract.

Mr. PASSMAN. Can the policyholder terminate the policy at any time?

Mr. MILLS. Yes. The policyholder can terminate the policy at any time. Normally, this occurs on the anniversary date through nonpayment of the premium due for the following year. It may also occur because of a sale or transfer of the investment.

LOAN PROGRAM

Mr. PASSMAN. How much of the $40 million provided to the capital account by transfer from AID has now been obligated to finance loans?

Mr. MILLS. OPIC has obligated $20,165,000 of the Direct Investment Fund as of March 31, 1973, less $4,565,000 of the participations sold to U.S. financial institutions, for a net lending position of $15,600,000.

Mr. PASSMAN. Would you please list each loan that has been made in the record with the amount of the loan, a brief description of the company receiving the loan and the purpose of the loan?

Mr. MILLS. I am pleased to submit a table on this for the record.

[The information follows:]

OPIC DIRECT LOAN PORTFOLIO, AS OF MARCH 31, 1973

Name of project	Country	Description of project	Purpose of OPIC financing	Amount obligated	Less participations to U.S. financial institutions	Net OPIC lending position
Private Investment Co. of Asia	Asia (regional)	Private multinational development bank	Private sector subloans in Asia	$2,000		$2,000
Korea Capital Corp	Korea	Private venture capital	Investments in Korea	700		700
ADELA	Latin America (regional)	Private multinational development bank	Private sector subloans in Latin America	3,000		3,000
Indian Motorcycle Co	Taiwan	Motorcycle assembly	Establish new business	200		200
			Expansion	250		250
P. T. United Coconut	Indonesia	Desiccated coconut plant	Establish new business	500		500
P. T. Daralon	do	Polyester textile plant	do	1,000		1,000
Cargill Argicola, S.A	Brazil	Soybean processing facility	do	2,500	1,250	1,250
P. T. Kayan River	Indonesia	Logging/sawmill operation	Expansion	1,600		1,600
Residences Pauline, S.A	Haiti	Tourist Hotel	Establish new business	415	415	0
Olinkraft Celulose e Papel	Brazil	Paper and pulp mill	Expansion	2,500	1,500	1,000
Companhia de Papeis	do	Tissue paper mill	Establish new business	3,500	1,400	2,100
Seaboard Overseas Ltd	Liberia and Nigeria	Flour milling	do	2,000		2,000
Total				20,165	—4,565	15,600

Mr. PASSMAN. What additional loans do you have planned for the immediate future?

Mr. MILLS. We have seven loans under active negotiation involving approximately $6,500,000 of OPIC financing net of participations.

Mr. PASSMAN. What are the total amounts of loans you estimate are to be obligated in fiscal year 1973 and fiscal year 1974?

Mr. MILLS. I would estimate a net lending volume of approximately $15 million in fiscal year 1973 and approximately $15 million in fiscal year 1974.

Mr. PASSMAN. What are the terms of these loans?

Mr. MILLS. The terms will vary according to our assessment of each project, the risks involved and changing market conditions at the time of negotiation. Interest rates on our loans have varied from 7 percent to 12 percent and maturities range from as little as 6 years to as much as 15 years including an appropriate grace period.

INDIAN MOTORCYCLE LOAN

Mr. PASSMAN. Have you provided any loans to domestic corporations such as the Indian Motorcycle loan that was mentioned last year, how had the Indian Motorcycle loan worked out over the past year and has this company been able to regain some of the domestic market for motorcycles that has been dominated by foreign corporations?

Mr. MILLS. Indian Motorcycle Co. has been successful in recapturing some of the domestic U.S. motorcycle market from foreign firms. The company's sales, made in direct competition with Japanese corporations, will be approximately $3 million this year, compared to $1.7 million last year. Indian began to make progress in foreign markets during the past year with its first sales in Canada, Australia, and Panama.

The OPIC loan to Indian Motorcycle was increased from $200,000 to $450,000 during the past year, in view of its successful operations in the face of stiff Japanese competition and the need to expand its facilities in Taiwan.

OPIC financing was the major factor in enabling this small business to begin to control its own sources of production. Now that this company has gotten on its feet and established good financial performance, one of the largest private financial institutions in the United States has been attracted to lend to the project. Indian is now negotiating with this financial institution for a new infusion of capital which will replace most of the OPIC loan and will enable Indian to further expand.

Thus, the OPIC loans enabled this small company, which could not attract private funds due to its size and to the location of its manufacturing facilities in a developing country, to establish itself to the point where the private sector is ready to assume the major financing role for the company, and to recapture some of the motorcycle market for U.S. companies.

No loans have been provided to any domestic corporation other than the Indian Motorcycle Co.

CAPITAL INCREASE

Mr. PASSMAN. Will it be necessary for you to request additional authorization for capital in the near future?

Mr. MILLS. We have not requested any addition to OPIC capital for fiscal year 1974. Originally the OPIC legislation in 1969 had proposed capitalizing the corporation at $100 million, paid in over a 5-year period. However, that was reduced to $40 million over 2 years when the bill was enacted. We are not now planning any increase in OPIC's capital.

Mr. PASSMAN. Do you propose to modify your authorization through additional legislation this year?

Mr. MILLS. Yes, sir, we do.

Mr. PASSMAN. Would you please tell the committee what sort of modification you've planned?

Mr. MILLS. While the legislation has not yet been sent up and I cannot get into the specifics, generally I believe the new legislation will request among other things a 2-year extension of OPIC's authorities, and an undertaking by OPIC to attempt to put new insurance written on a self-sustaining basis.

NUMBER OF COUNTRIES OPERATING

Mr. PASSMAN. In how many countries are you presently operating programs administered by OPIC?

Mr. MILLS. OPIC programs now operate in 90 less-developed countries.

PROGRAM DESCRIPTION

Mr. PASSMAN. Would you briefly describe each program handled by OPIC?

Mr. MILLS. OPIC's programs are:

Preinvestment assistance, which includes information, counseling, and partial financial support for feasibility studies and project development, particularly for small businesses;

Investment insurance against the political risks of expropriation, currency inconvertibility, and war, revolution, or insurrection;

Financial assistance through loan guaranties which assure repayment of private U.S. loans to foreign enterprises in which there is a substantial U.S. interest and through direct loan in dollars or local currencies.

OPIC also has several special programs to serve groups with special needs. The programs provided include help to:

Small businesses (independently owned companies with assets of less than $7.5 million): OPIC will advance funds for reconnaissance surveys, feasibility or market studies, and pilot programs to assist smaller firms to identify suitable investment opportunities abroad. Approved companies also qualify for the other OPIC insurance and finance programs described earlier;

Construction firms: OPIC provides a special insurance coverage to protect U.S. contractors in developing countries against confiscation of assets, nonpayment of contracts, and other hazards. OPIC will issue a binder letter to the contractor before he bids, thereby permitting him to calculate lower bids by not having to factor in self-insurance;

Agribusiness firms: OPIC shares with the nonprofit Agribusiness Council, Inc., the cost of reconnaissance surveys and feasibility studies to help U.S. firms locate investment opportunities in processing, marketing, and storing agricultural commodities;

Cooperatives and credit unions: OPIC incentives are available to U.S. cooperatives, credit unions, foundations, and voluntary agencies that wish to foster cooperatives and credit unions in developing countries, or that want to broaden their investment portfolios;

Small Latin American borrowers: Under the experimental "productive credit guarantee program" OPIC guarantees made credit available in four Latin American countries to very low income individuals and communities that need small amounts of capital to finance local business or community projects but lack enough collateral or other requisites to obtain credit from banks.

To be eligible for OPIC insurance or finance, investment projects must be:

New projects or expansions of existing projects;

Approved by the host countries and contribute to their social and economic development;

Economically beneficial to the United States (export growth, tax revenues, job creation, or access to strategic supplies);

Financially sound (all fees and interest are at the going market rate).

LIMITATION ON LIABILITY

Mr. PASSMAN. What is the total amount of insurance and guarantees you can have outstanding at any one time?

Mr. MILLS. The maximum contingent liability outstanding at any one time pursuant to insurance issued under section 234(a) of our act is $7,500 million. The maximum contingent liability outstanding at any one time pursuant to financial guarantees issued under section 234(b) is $750 million. However, OPIC may not make any commitments to issue any guarantee which would result in a fractional reserve less than 25 percent of the maximum contingent liability then outstanding against guarantees issued or commitments made pursuant to section 234(b) or similar predecessor guarantee authority.

Mr. PASSMAN. Does this restriction apply only to OPIC and does not cover what has been issued prior to the creation of OPIC?

Mr. MILLS. The ceilings apply only to OPIC and does not cover the liabilities issued by AID, which OPIC inherited.

NET INCOME

Mr. PASSMAN. What was the net income earned by OPIC in fiscal year 1972 and what are the estimates for fiscal year 1973 and fiscal year 1974?

Mr. MILLS. The net income for fiscal year 1972 was $28,900,910. The net income, based upon our budget submission for fiscal year 1973 and fiscal year 1974 is $27,570,000 and $35,297,000, respectively.

Mr. PASSMAN. Is the net income transferred to the reserve account each year?

Mr. MILLS. A major portion of the net earnings each year is transferred by the board of directors to the reserve accounts. A small amount is left in an unallocated reserve for future allocations.

TERMINATION OF APPROPRIATED FUNDS

Mr. PASSMAN. Do you have any idea when OPIC would be able to operate without any appropriation whatsoever?

Mr. MILLS. In my prepared statement I said, "No one can state with absolute confidence that the existing portfolio can be managed at no cost to the taxpayer. Proof will have to await the expiration of some 2,000 long-term contracts which OPIC inherited." The new portfolio which OPIC is writing embodies many risk management features which we believe will put the program on a businesslike footing. If the current request for restoring funds taken from the insurance pool in the past is granted, I believe OPIC will no longer need to seek appropriations to expand reserves except in the event of wholesale confiscations, a very unlikely event, or a multicounty war effecting many insured properities simultaneously. Full faith and credit backing of the insurance is and will continue to be essential to meet this threat, however remote it may be. These comments apply to an OPIC operating in the fields of investment it now insures or guarantees.

INVESTMENT PROMOTION PROGRAMS

Mr. PASSMAN. What type of investment promotion programs are presently being carried on by OPIC?

Mr. MILLS. We are doing several things in this area. By means of brochures, speeches and calls on executives of U.S. firms, large, medium-size and small, we attempt to make U.S. investors aware of the opportunities which exist in the developing countries and the degree to which our programs of insurance and finance can make such investment feasible.

The nature of OPIC's business is such that we have acquired a great deal of experience and knowledge about LDC's. We try to pass this on the prospective U.S. investors. Counseling these firms is time consuming and takes a substantial part of our work day, but it is important; and we spend the time because investing in LDC's is a risky business and the U.S. firm should do so with maximum beforehand knowledge, care and planning.

To a limited extent, primarily in agribusiness and small business investment promotion, OPIC finances some of the costs of a private investor's investigations of project feasibility. This may be done through a loan or through a form of joint venture participation under which our original cost participation will be converted into an income producing security of a project that goes forward. In the usual case OPIC provides political risk insurance and long-term financing to such projects. In these ways OPIC earns income from the successful projects to offset costs incurred in those studies which result in a decision by the U.S. company not to carry out the project.

OPIC has special investment promotion programs for small business. These include the appointment of an OPIC Small Business Officer, who focuses OPIC's resources specifically for the benefit of smaller U.S. firms interested in LDC investment, and the inauguration of a special program of financial assistance for feasibility studies which such firms seek to carry out.

INTERNATIONAL EXECUTIVE SERVICE CORPS

Mr. PASSMAN. Would you please explain briefly OPIC's role in connection with the International Executive Service Corps and does OPIC provide any funds that would share in the cost of sending executives abroad in connection with this Executive Service Corps?

Mr. MILLS. The IESC is a private corporation based in New York City, which receives a grant from AID and, until January 1, 1973, the administration of that grant was shared by OPIC and AID. On that date the administration was fully lodged in AID at the request of the IESC, because AID was able to provide additional funding to allow the IESC to increase its annual project level.

At no time during the 2 years when OPIC administered the AID grant to the IESC were any OPIC funds used. Financial support for the IESC during the 9 years of its operations has always come from AID, private corporations and IESC's own fee structure.

CHILE

Mr. PASSMAN. Is OPIC still writing insurance for investments in Chile?

Mr. MILLS. No new insurance has been written in Chile since July, 1970. OPIC is not now writing coverage in Chile because of that Government's present policy regarding expropriation.

MAXIMUM RESERVE

Mr. PASSMAN. Do you think there is a maximum level the reserve accounts should reach and then just maintain that level?

Mr. MILLS. OPIC should have a minimum insurance reserve in the neighborhood of $200 million and 25 percent of projects guaranty portfolio in finance.

PUBLIC CONFIDENCE

Mr. PASSMAN. Do you feel public confidence in OPIC's ability to promptly pay claims needs strengthening when the full faith and credit of the U.S. backs the corporation?

Mr. MILLS. Yes, definitely. In the event the reserve fund is insufficient to meet approved claims, we must implement action through the budget authorities and obtain a congressional appropriation. The appropriation process usually takes a long time, and delays could be costly to an investor who expects prompt payment on his coverage for which he has paid substantial fees.

SIZE OF INSURANCE AND GUARANTY PROGRAMS

Mr. PASSMAN. How much insurance do you expect to write in fiscal year 1974 and how does that compare to fiscal year 1973?

Mr. MILLS. In the first 6 months of fiscal year 1973, taking the total for all three coverages, we have written $284 million of insurance, compared with $247 million in the first 6 months of fiscal year 1972, and $1,415 million written by our predecessor agency in the first six months of fiscal year 1971. Our more conservative policies and guidelines are responsible for roughly half of this decline during the past years, with the remainder attributable to reduced U.S. overseas

investment in new projects. We project an aggregate insurance volume of $600 to $700 million for fiscal year 1973, similar to the total of $671 million for fiscal year 1972, with an increase to $900 million in fiscal year 1974 likely as a number of heretofore postponed projects are implemented.

Mr. PASSMAN. Please provide the same information for the guaranty program.

Mr. MILLS. I would estimate OPIC will issue approximately $25 million in guaranties in fiscal year 1973 and $50 to $75 million in fiscal year 1974.

PERSONNEL

Mr. PASSMAN. What will be the total number of people you estimate to have on board in fiscal year 1974 and how does this compare to fiscal year 1973?

Mr. MILLS. In June 1972 the Corporation had a total of 139 employees including full-time and temporary employees as well as intermittent employees such as the Board of Directors and consultants. We will probably have a total of about 136 employees on board in June 1973, and we anticipate the same number in June 1974.

Mr. PASSMAN. In your justifications, you indicate that claims review and settlement costs should peak in fiscal year 1973 and decrease in fiscal year 1974. Could you tell the committee why this is the case?

Mr. MILLS. The administrative budget for fiscal year 1974 represents a decrease of $461,000 over fiscal year 1973. This decrease comes largely from a reduction in outside legal and other professional costs related to claims investigation, particularly with respect to Chile claims.

REORGANIZATION

Mr. PASSMAN. You indicate that through reorganization you have been able to operate with a full-time staff which has averaged slightly less than 130 persons. Could you tell the committee the nature of this reorganization?

Mr. MILLS. The nature of the reorganization that has enabled us to operate on less than 130 full-time employees has been mostly in the form of consolidation of some of our functions under fewer managers. For example, earlier last year, the Finance and Insurance Departments were each organized into four different divisions, that is, East Asia, Near East/South Asia, Latin America, and Africa. In the Insurance Department we combined Latin America and Africa into one division and East Asia and Near East/South Asia into a second division. A similar reorganization was conducted in the Finance Department. The result was that it gave management more flexibility in staff assignments and permitted our staff members to be more effectively utilized. We also found that we could operate more efficiently with fewer managers and secretaries in each department under the new organizational arrangement.

Reorganization throughout the rest of the Corporation is more of a continuing position-by-position review. We have not rushed to fill positions as they have been vacated but, rather, have reviewed the utility of the vacated position with an eye toward redistributing the duties among occupied positions.

By exercising this kind of position management, we have not only stopped a staff expansion for the Corporation but actually have managed to decrease the number of employees over the past year. However, I do not anticipate any further reductions with the maintenance of our present program responsibilities.

INTEREST ON U.S. OBLIGATIONS

Mr. PASSMAN. In your income statement you indicate that you will earn $6,875,000 interest on U.S. obligations in fiscal year 1974. Could you tell the committee what sort of obligations you hold?

Mr. MILLS. U.S. obligations held by OPIC consist of U.S. Treasury bills and notes. A majority of the holdings are in Treasury bills, maturing within 3, 6, 8, and 12 months. Notes mature within 2 to 3 years.

TRAVEL EXPENSE

Mr. PASSMAN. In your administrative expenses you list $351,000 for travel and transportation costs for fiscal year 1974. Would you please explain to the committee why you need such a large amount of this purpose?

Mr. MILLS. OPIC's enabling legislation does not permit it to establish overseas offices. As a result, OPIC must send its project officers and claims attorneys to the countries to evaluate project proposals, to monitor project performance, and to investigate and negotiate claims. Travel expenses are expected to peak in fiscal year 1973 as claims investigations in Chile are completed. The travel estimate for fiscal year 1974 is somewhat less than for fiscal year 1973.

CAPITAL INVESTMENT

Mr. PASSMAN. In footnote A of the balance sheet you indicate that appropriated capital for direct investments may not be invested. I assume this is a restriction placed in the authorization, is that correct?

If so, have you given any thought to amending this authorization to allow you to invest these funds?

Mr. MILLS. Yes, OPIC's legislation only permits it to invest earned income in U.S. Treasury securities but not its appropriated funds. The appropriated capital may be invested only in overseas projects.

That is not in our present legislative proposals, but I think your idea has considerable merit. I certainly believe that the Corporation should have authority to hold its idle capital in income earning accounts as any prudent business does.

Mr. PASSMAN. Mr. Shriver.

COOLEY LOANS

Mr. SHRIVER. Thank you, Mr. Chairman. These loans we were talking about a little while ago, are those the same as the old Cooley loan program?

Mr. MILLS. No, the Cooley loan programs are in local currencies in a limited number of countries to U.S. businesses.

Mr. SHRIVER. Do you still administer the Cooley loan program?

Mr. MILLS. Yes, we do.

Mr. SHRIVER. Have you had any new Cooley loans this last year?

Mr. MILLS. We are practically out of the new lending business, Congressman. No loans in fiscal year 1973.

Mr. SHRIVER. So the chart as shown on page 612 of the hearings of last year would be the last loans and would represent the present status of them.

Mr. MILLS. That is approximately correct. There were some loans made in fiscal year 1972, but there has been really very little change. We have some loans which were in trouble that we have gotten in good shape. The program is proceeding quite well as a matter of fact. Our loss ratio is less than 3 percent on that whole portfolio.

FUNDS TRANSFERRED TO THE HOUSING GUARANTY PROGRAM

Mr. SHRIVER. From your previous testimony you referred to $50 million which was transferred to the AID housing guaranty program by the Foreign Assistance Act.

Mr. MILLS. Correct.

Mr. SHRIVER. Why haven't you gone to the authorizing committee and requested that this money be returned to you from the housing guaranty program, instead of using new money out of the Treasury?

Mr. MILLS. We have just simply not appeared recently before the House or the Senate authorizing committees. We expect we will be coming up this year for additional extension of our authority. We will be appearing and at that time we may do this.

Mr. SHRIVER. My question is, Why should it come from the General Treasury when the request is in direct competition with all of the domestic demands for health, welfare, and education, where cuts are now being made? Our other subcommittees are hearing requests for reductions in expenditures for domestic programs in 1974.

Mr. MILLS. It was the administration's decision to do it this way because it feels that funds taken away must be restored to the reserve by appropriation.

Mr. MAYS. I can add to that. We have assumed if authorizing action was taken there would still have to be an appropriation for the Latin American housing guaranty reserve.

Mr. MILLS. The net effect is the same.

Mr. SHRIVER. Except it looks worse from the appropriating standpoint at a time when we have the problem of a huge deficit.

YUGOSLAVIA AND ROMANIA

Part of your role is to facilitate the use of private investment for the economic development of poor or underdeveloped countries, is that correct?

Mr. MILLS. That is correct.

Mr. SHRIVER. You have been underwriting U.S. firms' investments in Yugoslavia and Romania, have you not?

Mr. MILLS. Not yet. We are about to sign a treaty with Romania and we have just signed a treaty with Yugoslavia, but we have not made any commitments have we, Joe?

Mr. PRICE. No, there has been some interest expressed and applications filed, but no policies executed.

Mr. SHRIVER. Do you consider those countries underdeveloped?

Mr. MILLS. They were so designated by the President and it was approved by Congress.

Mr. PRICE. An amendment was added to the legislation that included those two countries.

Mr. MILLS. This is part of the East-West rapprochement.

Mr. SHRIVER. This was approved by Congress.

Mr. MILLS. It was a special request that the President made, and it was sent to Congress and approved last year.

Mr. MAYS. Voted on by both Houses.

Mr. SHRIVER. Are you intending to do the same for the Soviet Union?

Mr. MILLS. We have no intention at this time at all. We have no Presidential request. From what I know there is nothing being considered at this time, Congressman.

COMMON MARKET COMPETITION

Mr. SHRIVER. You mentioned the competition from similar agencies in other developed countries. The Common Market has organized something called OPIG—the Office for Private Investment Guaranty. Tell us about that organization.

Mr. MILLS. The EEC scheme. This is the German scheme?

Mr. SHRIVER. No, the Common Market scheme.

Mr. MILLS. Mr. Price will respond to that.

Mr. PRICE. This is designed to be just exactly like OPIC, the German and Dutch programs and the others except it is to serve the Common Market generally. It is a proposal that has been made. It is interesting the rationale behind the proposal is not for development purposes, but to make the European Common Market more competitive with its other competitors unnamed but presumably the United States and Japan. I think it is just another indication that these programs, particularly the insurance protection, are considered by the industrialized countries as means of competing for world markets and for world sales, and the Common Market has recognized this in their proposal.

Mr. SHRIVER. They are interested in the insurance feature, not the lending feature, I assume.

Mr. MILLS. It is strictly insurance, that is correct.

Mr. SHRIVER. Concerning this competition which you mentioned on page 12 of your statement, you point out the lower insurance fees charged by all the other countries' agencies. Are you recommending a lowering of your insurance fees?

Mr. MILLS. No, we are suggesting that other agencies raise their fees because they are openly subsidized. The other nations openly acknowledge this. The chairman said, Why are we in trouble? One of the reasons we are in trouble is because the other nations say their insurance fees will be one-half of 1 percent and I have to be as self-sufficient as possible. I believe in it. I believe that is the way we should operate but I am also saying every American businessman going abroad, when he goes into Brazil he has a 1-percent charge over and above the Japanese. So the Japanese just say, "We are going to do better." This is our problem. That is why these other nations who openly subsidize and openly help their businesses are getting the exports, because they are getting the markets. They are getting in these investments.

Mr. SHRIVER. I yield to the chairman. I had to get that in the record, Mr. Chairman.

Mr. PASSMAN. Let's get this in the record also. Our net disbursements on foreign aid and assistance since it started after World War II, now is about $250 billion. Do you think that has anything to do with it?

Mr. MILLS. I do, Mr. Chairman, but it is government to government.

Mr. PASSMAN. You and I know all this tremendous expenditure has to be billed into our economy and it certainly created inflation. We have priced ourselves out of the world market on account of our extravagance. You don't quarrel with that, do you?

Mr. MILLS. What I quarrel with is the differentiation—government to government is one thing, but OPIC is involved in the private sector, and that is completely different.

Mr. PASSMAN. You didn't answer my question. Our extravagance has priced us out of world markets in many fields, has it not?

Mr. MILLS. We have priced ourselves out of world markets.

Mr. PASSMAN. I can't ask for any better answer. Thank you, Mr. Mills, and thank you, Mr. Shriver, for yielding.

PARTICIPATION OF COMMUNIST COMPANY

Mr. SHRIVER. I believe the Washington Post reported last April part of your insurance written to protect U.S. investment in developing nations had been underwritten by the Black Sea and Baltic Insurance Co., a subsidiary of the state insurance agency of the Soviet Union. Could you tell us about that?

Mr. MILLS. It was reinsured. Mr. Price will explain.

Mr. PRICE. In our reinsurance efforts, one of our purposes has been to multinationalize our risk, so when we go to a country that is planning expropriation and we sit down to negotiate with them, we say this involves not only OPIC's money, but moneys of a British or Italian or other insurance company as well.

In effect, the Russian insurance company was insuring during 1972 U.S. investments all over the world, including Vietnam, against expropriation. This was an additional leverage for us in our negotiations. We would like to further this effort to get other national schemes involved—the French, the British, the Germans—so that we all stand together when negotiating with countries threatening expropriation. We can say this affects all, not just one of us.

Mr. MILLS. We have a major effort now underway to have all the other national schemes joined together in some sort of multinational arrangement so we can start sharing our experience together, as well as discuss risk sharing.

[Discussion off the record.]

Mr. MILLS. I think it leads to a better understanding of the problem. Norway has just been expropriated in Zambia. It tells us about their experience and what some of the problems may be.

Mr. PASSMAN. If we can't handle it bilaterally, you can't handle it multilaterally. The record shows that.

Mr. MILLER. If the gentleman would yield, I would like to hear a little more about Russia reinsuring our loans in South Vietnam. Would you elaborate on that. I am sure I heard that.

Mr. PRICE. Not loans, Congressman. The reinsurance policy was sold on the London market as a straight commercial arrangement, and to the best of our knowledge the agent who made the deal for the Soviet Government entered into it on that basis. In effect, however, he was signing an agreement which reinsured OPIC's expropriation insurance contracts worldwide except Chile. Since we do have a couple of projects outstanding in Vietnam——

Mr. MILLS. It meant it would have been theoretically possible. We didn't have any claims, so it didn't occur. It was also in Israel and Pakistan. We have 90 countries.

Mr. PRICE. A very interesting speech was made on the floor of the Chilean Congress in which a Senator chided President Allende's party about the Soviet Union signing up to reinsure the U.S. investors overseas.

Mr. PASSMAN. Will the gentleman yield?

You mean that the Russians in effect have gone out and created unrest among U.S. investments that we guaranteed, and now they are placing their guarantee to those countries to cover our investments?

Mr. MILLS. If we had had an expropriation claim and we paid it——

Mr. PASSMAN. Now the Russians are guaranteeing a second guarantee.

Mr. PRICE. No. If we had to pay $100 claims, they would have to pay a certain percent of that.

Mr. PASSMAN. But it is the same thing. They are placing their guarantee on top of ours, are they not?

Mr. MILLS. Behind ours.

Mr. PASSMAN. If we default, then they come in and pay it?

Mr. MILLS. No. If we pay, they pay.

Mr. MILLER. Their share?

Mr. MILLS. They pay their share.

Mr. PRICE. Only on the insurance.

Mr. YATES. This is coinsurance, isn't it?

Mr. MILLS. Reinsurance. This is what we have done with Lloyds of London. Up until 2 years ago, the U.S. Government took 100 percent of the risk. Now we are sharing it with private insurers in other nations.

Mr. PASSMAN. With Russia?

Mr. YATES. Will the chairman yield? As I understand what you did, you reinsured with Lloyds, and Lloyds in turn reinsured with Russia. Is that what happened?

Mr. PRICE. Their company was a participant along with a number of other syndicates and insurance companies in the reinsurance placement.

Mr. YATES. Lloyds was?

Mr. PRICE. The Black Sea & Baltic Co.

Mr. YATES. But the United States reinsured with Lloyds of London.

Mr. MILLS. Correct.

Mr. YATES. And your interest in it stopped there. Lloyds of London then reinsured, didn't it?

Mr. PRICE. I think more accurately you could say we reinsured in the London insurance market. Included in that market were Lloyds syndicates, British insurance companies and the Black Sea & Baltic which operates as a British insurance company. The Black Sea &

Baltic is a British insurance company wholly owned by Ingerstok which is a Soviet insurance agency.

Mr. YATES. They took our portion of the insurance offered on the London market.

Mr. PRICE. They took a portion of the complete placement.

Mr. MAYS. If I could add to that this was a relatively small portion. If Lloyds had had to pay a $7 million loss I think Black Sea and Baltic's portion would not have exceeded $15,000.

Mr. PRICE. Per country.

Mr. MAYS. This was only in the first year and they are not on the risk this year I don't believe, are they, or do you know?

Mr. PRICE. That is right. They decided through orders to the London company not to renew in 1973.

Mr. PASSMAN. If the gentleman will yield further, we are not involved in this directly?

Mr. MILLS. No.

Mr. PASSMAN. This is just something that happens over which you have no control, is that correct?

Mr. MILLS. We were very fascinated that they took our reinsurance.

Mr. PASSMAN. I am fascinated too, but that has nothing to do with our responsibility. You had no part of the negotiation about this reinsurance with Lloyds, did you?

Mr. MILLS. The broker did, didn't he?

Mr. PRICE. That is right.

Mr. PASSMAN. What?

Mr. MILLS. The agent who put it together at Lloyds.

Mr. PASSMAN. But as far as OPIC's concern this is completely removed from your operation, is it not?

Mr. MILLS. The reinsurance is, yes.

Mr. PASSMAN. The reinsurance feature of it, that is what we are talking about. You can't stop Lloyds from placing the insurance with anyone they want to, can you? You have no choice and it is in no way multinational, is that right?

Mr. MILLS. No way multilateral.

Mr. PRICE. The important thing is that we make all of the decisions with respect to the policy, the claims payment if a payment is to be made, how much is to be paid. Then if we make a decision that we owe $100 the reinsurance kicks in automatically and pays $50 of that.

Mr. PASSMAN. Then you have to be involved with these contracts that the Russians have participated in?

Mr. MILLER. If the chairman will yield, I also believe that you would necessarily be involved. You could not sell that insurance or that reinsurance to the countries if they did not want to buy it. They must have had some reason for purchasing, and in purchasing they in turn would know the limitations in the contract that you have made.

Mr. PRICE. Let me say our statute says we are required to make every effort to share and spread our risk. In following the congressional directive to do that and trying to operate this as a business as I indicated earlier——

Mr. MILLER. You are not going to sell it to me unless I know what is in the contract.

Mr. PRICE. In effect you get one or two underwriters in the London market who are familiar with this kind of risk and you go through the

contract with them. They understand it and become leaders in the syndicate and then others will follow. In the first year we sold reinsurance approximating around $270 million. In other words, we sold out of our risk $278 million that Lloyds would have to assume. This year it is up to $410 million, so that as I indicated earlier, in 80 percent of these countries whenever we pay a claim, rather than the OPIC reserves or the U.S. taxpayers having to pay 100 percent of that claim, these reinsurers will have to pay 50 percent and we will have to pay 50 percent. It is an effort really to reduce our risk and spread the risk.

Mr. MILLER. I know what it is on the reinsurance, but it is hard for me to believe that anybody would buy part of that insurance, and that is what they are doing. They are going to be backing you up.

Mr. PRICE. That is right.

Mr. MILLER. Paying 10, 30 or 50 percent, whatever it may be.

Mr. PRICE. That is right.

Mr. MILLER. But they surely will know what risk they are moving into at the time.

Mr. PRICE. This in effect is the test of the marketplace. A lot has been said about these countries being so dangerous that OPIC would lose all its money. If you look at the history of this program over the last 20 years, there have been two major catastrophes, Cuba and Chile. We didn't have any contracts outstanding in Cuba. Unfortunately when OPIC took over this program 2 years ago we were faced with a catastrophe in Chile. But basically there have not been mass expropriations and this is the basis on which Lloyds makes its judgment commercially in the marketplace to take a piece of this risk.

Mr. MILLS. For instance, we told you about potential claims in Bolivia when we were here last year. We have solved Bolivia without any cost to the American taxpayer which I think is a very important thing that we have been able to accomplish.

FEES PAID TO LLOYDS OF LONDON

Mr. PASSMAN. In effect you do then give a part of your premiums to Lloyds.

Mr. MILLS. To Lloyds, we do, sir.

Mr. PASSMAN. Will you place in the record the total premiums that you collected in 1972 on insurance, and what part of it you sold to Lloyds of London. Who are really agents for thousands of insurance companies.

Mr. MILLS. We certainly will.

[The information follows:]

INSURANCE PREMIUMS COLLECTED AND REINSURANCE PREMIUMS PAID BY OPIC

The total reinsurance premiums paid by OPIC during calendar year 1972 were about $1,143,258. The total premiums paid to OPIC for expropriation insurance in fiscal year 1972 were $12,021,810.79. Premiums paid to OPIC for inconvertibility and war risk insurance are not included because no reinsurance is in force on these two types of insurance coverage. Premiums paid to OPIC are computed on a fiscal year basis, while the reinsurance contracts became effective and operate on a calendar year basis.

Mr. SHRIVER. I yield to Mr. Yates.

Mr. YATES. That was my question. Inasmuch as they reinsure what portion of the premium which you receive do you pay to Lloyds?

Mr. MILLS. Eighty-five percent of that premium. We make a 15 percent administrative charge.

Mr. PRICE. In other words, on that portion of the portfolio for which they accept liability, they receive 85 percent of the premiums attributable to that portion. We get the other 15 percent. We estimate that our administrative costs on the insurance side don't exceed 7 percent of premium income so the other 8 percent is really profit to us on those contracts.

Mr. PASSMAN. The country on which you had the most insurance and faced the largest loss was excluded?

Mr. MILLS. We excluded because it had already been negotiated and claims filed.

Mr. PASSMAN. You could save money if you let Lloyds of London buy part of it.

Mr. MILLS. If they had been on it 10 years ago.

SYSTEM OF REINSURANCE

Mr. MILLER. I understood Mr. Yates asked a question as to whether Lloyds had purchased and then they reinsured. That would be the third time around. I understood you people to say no, that did not happen, that you sold it out on the market, which would mean you would sell to the Russian-owned company directly. Is that correct? That is what I understood the answer to Mr. Yates' questions to be.

Mr. PRICE. We told the broker, and you have to approach Lloyds' underwriter through a broker, who handled the placement in London, that we would like to get up to $10 million per country the first time around. We would like to sell that much per country of our expropriation portfolio.

Mr. MILLER. Were you thinking of Russia?

Mr. PRICE. We just said, we would like to sell as much as we can in the United States and we would like you to sell as much as you can worldwide as long as the purchasers have good credit ratings.

Mr. MILLS. You get a list of 50 companies.

Mr. PRICE. We went first to Lloyds and they took the bulk of it. Then we went to British insurance companies and included in the British insurance companies that were approached and which took a portion of the reinsurance was the Black Sea and Baltic, a British insuranace company wholly owned by Ingerstok.

Mr. PASSMAN. You actually have a broker selling this insurance, You receive about 15 percent from this insurance which is sold?

Mr. MILLS. On that portion.

Mr. PASSMAN. It would appear to me you have a system there where about three different levels are making a profit. You are talking yourself out of business and I like that approach.

Mr. MILLS. This is what we were asked by Congress to investigate, Mr. Chairman.

Mr. PASSMAN. It looks to me like you could fold up at the end of this year because you have already made a record that of all the insurance you write the brokers or Lloyds have taken a large portion. You ought to get out of the picture and return to whatever business you were in before.

Mr. MILLS. In the last line of our authority it says we shall make a report to Congress by March of next year on how we could sell all or a portion of this to the private sector. I am not certain that we can at this time. I do not think the U.S. Government ever can get out wholly, but what I have tried to do in the last 2 years is to see whether there is a market privately. We now have determined there is a market for some of the risks.

Mr. PASSMAN. For 85 percent of the total?

Mr. MILLS. No, we have established that there is a market for $14 million in every country we are in. The major risks, such as a bauxite mine involving hundreds of millions of dollars, will still have to be covered by the U.S. Government. But I think the smaller risks can be worked out on a commercial basis. We were told it was impossible when we came here 2 years ago. What we are trying to prove is that it is possible and that a portion of the risk can be transferred to the private sector.

Mr. PASSMAN. The private sector covered a lot of this actually before we got into the business for many, many years.

Mr. MILLS. Not of expropriation.

Mr. PASSMAN. There have been different types of insurance I guess depending on the country and the company you were dealing with, but almost every type of insurance had been sold prior to the creation of this spigot under AID.

Mr. MILLS. If you will remember, what was it, the Federal housing loan thing started as all Government, then went to semi-Government-private and has now moved to private.

EFFECTS ON BALANCE OF PAYMENTS

Mr. SHRIVER. Tell us more about the balance-of-payments effects of your operations. You might furnish something for the record showing what goes out and what comes in under your various programs.

Mr. MILLS. We have analyzed a sampling of our portfolio and have commissioned a more general study of the U.S. balance-of-payments effects of U.S. investment in the less-developed countries. Both indicate positive U.S. effects on the balance-of-payments accounts.

As I indicated to Congressman Passman earlier, the recently completed study by Harbridge House of 20 mature operating investments assisted by OPIC's predecessor, AID, indicates substantial net benefits to the U.S. balance of payments both in dividend, interest, and fee returns to the United States and increased U.S. exports of equipment and supplies directly resulting from construction and operation of these projects.

Data and studies relating to foreign investment in general in the developing nations also show a similar positive impact on the U.S. balance of payments. The Harvard Business School, in its study of the effects of multinational corporations and their impact on U.S. trade, concluded that U.S. investment in manufacturing projects in the developing nations resulted in a net benefit to the U.S. balance of payments of $800 million in 1970.

Department of Commerce statistics similarly indicate that the capital accounts impact of U.S. private foreign investment transactions with the developing nations, even when the petroleum industry is excluded from consideration, has been positive in past years. Com-

paring dividends, interest, royalties, debt repayments, and other inflows against direct investment and other outflows, the U.S. balance-of-payments capital account (not counting trade impact) benefited by approximately $600 million in 1970 and $390 million in 1971. If the petroleum industry statistics were included, the positive impact would be much greater.

EFFECTS ON U.S. EMPLOYMENT

Mr. SHRIVER. Much of the criticism of OPIC we heard on the House floor last year stemmed from the allegations that your programs are responsible for "exporting" U.S. jobs. We need concrete figures on this, not just the theory that U.S. jobs are also created.

Mr. MILLS. OPIC is selective in encouraging only those investments which are beneficial to U.S. employment as well as our balance of payments and the development of the host country. OPIC's eligibility criteria, which I mentioned earlier, are strictly enforced, and the effect of these policies is readily apparent in the actual results of OPIC's operations. In fiscal years 1972 and 1973 (through mid-March), OPIC issued insurance covering 117 projects with a proposed investment of approximately $267.6 million. These projects and the capital to be invested increased and will continue to increase employment in our exporting industries and home office and other operations of the investing corporations. There is no offsetting loss of U.S. jobs in the case of mineral extraction, local service operations, and manufacturing to serve local or regional markets that cannot be reached competitively from a U.S.-production base. OPIC does not encourage projects that will cause a shutdown of U.S. employment.

The 1972–73 projects and the amounts to be invested in them include: 16 banking, finance, insurance, and leasing operations ($29 million); 10 wood, wood products, paper and paper products investments ($15 million); 4 mining projects ($45 million); 5 investments in oil refineries, tank farms, tanker ships, and helicopter rental operations ($56 million); 6 hotels, lodges, and shopping center development ($8 million); 8 cattle ranches, poultry farms, coconut processing facilities, grain elevators, and other agricultural operations ($4 million); 4 cement plants ($8 million); 4 contracts to construct major facilities such as hydroelectric dams ($8 million); 1 satellite receiving station ($6 million); 3 plants to make small dry cell batteries ($3 million); 3 razor blade manufacturing plants ($1 million); 7 facilities to produce simple yarns and textiles ($9 million); 3 plants to assemble automobiles and tractors or recondition buses ($4 million); 3 facilities to produce glass products ($8 million); 3 pharmaceutical plants ($6 million); 6 plants to produce chemicals, petrochemicals, inks, dyes, and pesticides ($13 million); and 2 plants producing telephone equipment, cables and wires ($2 million). Other generally smaller projects which could be included in this list include a sales/service operation for U.S.-made business machines, a block ice production facility, a plant producing hand tools, and animal feed supply operations.

Again, only a comparatively few of the projects which OPIC has assisted are even in general fields of operations which might be considered as possibly having some negative impact on U.S. employment. However, all these projects passed OPIC's screening processes and we are confident that their overall impact will be a substantial boost to our domestic employment or balance of payments.

SIZE OF INVESTMENTS INSURED

Mr. SHRIVER. I am interested in the "pie" that you show on page 4 of your statement—almost half of your investment insurance transactions in 1972 were for investments of less than $500,000. Eighty percent of these investments were for less than $2 million. You may be suffering unduly from the press accounts of the ITT and Kennecott transactions, which were insured before the present organization of OPIC, I believe. Provide for the record several examples of the 80 percent of your transactions below the $2 million level. You might want to comment further on this.

Mr. MILLS. Here is a 6-month sample of investments insured in 1972 in which the investment was les than $2 million. In 13 of these cases the investment was below $500,000.

[The information follows:]

EXAMPLES OF SMALL INVESTMENTS INSURED BY OPIC BETWEEN MAY-NOVEMBER 1972

Investor	Project description	Country	(Thousands) Insured investment	Contract date
Arbor Acres Farm, Inc	Construction/operation of a poultry farm.	Thailand	100	November 1972.
Fonville Enterprises, Inc	Operation of a cattle ranch	Kenya	248	Do.
Maren-San Hair Fashions Ltd., U.S.A.	Establishment of a plant in Korea's Masan Free Export Zone for the manufacture of human and synthetic hair products.	Korea	50	Do.
Courtland E. Parfet	Cattle ranching	Kenya	194	October 1972.
Bayorient Holding Corp	Expansion of a financing operation which makes loans and equity investments in manufacturing and other business.	Korea	300	Do.
Ro-Search, Inc	Technological assistance for expansion of a plant to manufacture/sell for local consumption injected molded welt footwear known as "Wellco Welt" or "Injection Process 82" footwear.	Dominican Republic.	470	Do.
Inmont Corp	Expansion of a plant to manufacture printing ink industrial finishes and textile color.	Indonesia	132	September 1972.
Rosemary Mortellaro	Establishment of a cattle ranch for the production/sale of cattle.	Panama	80	Do.
Tandy Corp	Establishment/operation of a plant to assemble/manufacture electronic and acoustic equipment not produced in the United States.	Korea	500	August 1972.
Halcon International, Inc	Construct a plant to produce ethylene oxide and derivatives.	Brazil	840	June 1972.
Gentrex, Inc	Construct/operate a desiccated coconut plant.	Indonesia	125	Do.
United Coconut Corp	do	do	150	Do.
Sao Paulo Hotel Ltd	Construct/operate a hotel and 2 restaurants.	Brazil	300	Do.
McNeil Corp	Manufacture of tire vulcanizing equipment and other rubber processing machinery for sale.	India	575	Do.
Morgan Guaranty International Finance Corp.	Commercial bank (expansion)	Gabon	41	Do.
Earl G. Thompson	Manufacture/distribute block cubed and crushed ice and ice chests and ice boxes.	Ghana	50	May 1972.

INFORMATION PROGRAMS

Mr. SHRIVER. What kind of information programs do you have to inform small- and medium-sized businessmen of your programs? How much do you spend on this?

Mr. MILLS. We revised the small business program in September of last year to improve our preinvestment survey assistance and to allocate direct loan funds for smaller firms. At that time we distributed widely the attached press release.

[The information follows:]

WASHINGTON, D.C., Sept. 14—The Overseas Private Investment Corporation has launched a new incentive program designed to provide U.S. small business with a practical means for funding and analyzing new investment or export opportunities in less developed countries.

Under the plan, OPIC will advance reconnaissance and feasibility survey funds to qualified companies for the financing of project or market development studies. A portion of the repayment of these funds can be applied to the cost of insuring or financing the investment once the decision to go ahead has been made.

To qualify for the program, a company must demonstrate its capability for successful operation in the country and field of activity selected. Its assets may not exceed $7.5 million, and its net worth cannot be more than $2.5 million. It must be independently owned and, if in manufacturing, have no more than 1,500 employees.

To a company making a reconnaissance survey, OPIC will advance 75 percent of the cost up to a maximum of $4,000. If the company then proceeds with investment in the opportunity under study, OPIC will credit one-half of the repayment against the cost of any OPIC insurance or long-term financing of the project.

For detailed feasibility or marketing studies, or the establishment of a pilot operation, OPIC will advance up to 75 percent of the cost, not to exceed $20,000. To participate in this phase of the program, investors must provide an approximate budget and study plan.

Reconnaissance and feasibility study advances can be consolidated and repaid to OPIC in one of two ways. Seventy-five percent of the total obligation can be repaid in one installment at five percent interest within two years after initiation of the project, or 100 percent of the advance can be assumed as an obligation of the foreign enterprise in which the U.S. company invested. In the latter case, the full amount is to be repaid at 5 percent interest within 2 years. However, if the project receives OPIC loan financing, 25 percent of the repayment obligation on the study advances will be waived.

Charles Clarke, OPIC's small business officer, said, "The new program will provide both greater incentive and more practical means for American small business to generate commerce and earnings in new markets in the developing countries which represent the great potential of the future. Already these countries, as a whole have greater markets than the United States."

Mr. MILLS. In January of this year, we revised our small business brochure and sent it to some 5,000 publicly held corporations deemed by the Small Business Administration to be involved in small business activities in this country. In addition, the brochure was sent to all Members of Congress with a letter suggesting that they forward the information contained therein to their constituents. The small business brochure, as well as other OPIC documents, has been made available to regional Commerce Department field offices. These small business documents continue to be most popular among the public.

Since August of 1971, approximately 25,000 copies of OPIC brochures and papers on small business services have been distributed. To date the cost for these brochures has run about $2,500. The cost of this distribution and the press release announcing the new program has been about $1,000.

OPIC's small business officer dedicates as much of his working time as necessary to assist small business applicants.

PRODUCTIVE CREDIT GUARANTY PROGRAM

Mr. SHRIVER. You administer an experimental program in Latin America called the productive credit guaranty program. You say on page 5 this program helps to determine the effect of Latin American government guaranties of private bank lending to poor people for farming and business development. This sounds very much like a foreign aid program. How does it differ from activities carried out for years by the Agency for International Development?

This program doesn't agree with your statement on the top of page 20.

Mr. MILLS. This program was lodged in OPIC by decision of its congressional sponsors. It is a foreign-aid type program. Congress has directed OPIC to carry out an experimental credit program in Latin America to determine if host country private lenders could be motivated to make loans to people marginal to their credit systems if OPIC provides a partial guaranty of collection. If successful, the governments of the pilot countries would be encouraged to make a loan guaranty program a regular feature of their own system of credit for low-income people, without further involvement by a U.S. Government agency.

RESERVES ON HAND

Mr. SHRIVER. On page 2 of the justifications you say you have issued guaranties of $125 million against your reserve of $126 million to companies expropriated in Chile and Bolivia. On page 7 of your statement you say there are claims of $113.7 million on which OPIC has not determined liability. Using those figures, this appropriation request is not enough, is it, to cover your potential liabilities on these claims? The figures on page 2 of the justifications do not agree with those on page 16 of your statement. Would you comment?

Mr. MILLS. The $125 million figure in the original justifications includes interest which would accumulate if all installments were defaulted. At this point I am putting the situation this way: of the $125 million, $96.1 million represent contingent liabilities that have a maturity schedule. If the host governments pay their obligations, then OPIC will not need to pay the investors. If they fail, then OPIC meets each payment as it falls due, not the lump sum amount. As to the $113.7 million of claims not yet determined, we cannot say at this time how much would be approved and fall due in the next year.

The appropriation request is not justified by OPIC's need to meet these immediate claims. Rather, it is to restore to the pool of premium payments the funds that should have been kept in this pool but which, instead, were transferred to the AID housing guaranty program when OPIC was created, plus interest on this income over the history of the program which was kept by the U.S. Treasury.

INVESTMENT IN SOUTH VIETNAM

Mr. SHRIVER. Has interest in your programs increased in regard to investment in South Vietnam since the cease-fire?

Mr. MILLS. Yes, interest in OPIC investment insurance in South Vietnam has increased since announcement of the cease-fire. Investors have expressed interest in such projects as refining, fertilizer production, medical laboratories, fishing and food processing, small manufacturing, resources development, and manpower training. The investors inquiring have made clear that the availability of political risk insurance will be a precondition for investment.

Mr. SHRIVER. You conclude by saying you are consulting with policymaking departments about OPIC's role in meeting our country's foreign trade and investment needs, including reliable, long-term sources of raw materials. I have read that this is the major purpose of the Common Market's efforts in this area. Would you tell us about these consultations and what you see as OPIC's role?

Mr. MILLS. OPIC programs have been a major factor in raw materials investments in the LDC's, particularly bauxite, nickel, and copper. It is true that the Japanese and French have announced special programs to encourage their investing companies to seek out and develop foreign sources of raw materials. For instance, the Japanese program includes preinvestment assistance and long-term, low-interest loans to help finance mining ventures. We are discussing with other departments and the National Materials Policy Commission the extent to which potential U.S. investors in both hard and soft minerals should be encouraged or guided by OPIC programs, given the future U.S. need for raw materials and sources of supply.

Mr. PASSMAN. Dr. Long.

COMMUNITY AND BUSINESS DEVELOPMENT

Mr. LONG. In your statement on page 5, you mention that this program will try to expand credit to poor people for farming and business development. Do you equate community development and business development?

Mr. MILLS. We interpret section 240 to include two objectives; i.e., to channel credit to productive business enterprises and to channel credit to community improvement projects. In either case a project would not be able to obtain capital on reasonable terms without our guaranty. Eligible community development projects might improve health, education, and welfare services and/or provide local infrastructure such as water, sewage disposal, feeder roads, bridges, and power. Business development is enhanced through these projects by maintaining and improving essential human resources and by providing local infrastructure basic to economic development. However, business development projects directly finance a private Latin American farmer or very small businessman to undertake a capital or operating improvement. We view community and business development as complementary.

Mr. LONG. In what five Latin American countries is this program going on and what is the progress to date overall and in each of the five countries?

Mr. MILLS. I have a statistical summary showing results of a general nature and country by country, which I would like to submit.

[The information follows:]

ATTACHMENT 2

PRODUCTIVE CREDIT GUARANTY PROGRAM QUARTERLY STATISTICAL SUMMARY AS OF DEC. 31, 1972

	Yearly cumulative		Quarterly		Percent change	
	Last year	This year	Last quarter	This quarter	Yearly	Quarter
1. Lenders authorized	8	14	2	0	75	−∞
2. Portfolio authorized	1,900,000	3,025,000	450,000	0	59	−∞
3. Number of loans made	73	799	399	98	994	−75
4. Number of persons benefitted [1]	1,168	12,784	6,384	1,568	11	−75
5. Dollar equivalent amount loaned	187,091	536,112	172,578	66,434	186	38
6. Dollar equivalent amount outstanding	167,298	387,698			132	
7. OPIC exposure in U.S. dollars	41,825	96,925			131	
8. Number of loans delinquent to 90 days plus	0	27	21	27	∞	28
9. Dollar equivalent amount	0	19,624	13,471	19,624	∞	45
10. Dollar equivalent potential claims	0	14,718	10,103	14,718	∞	45
11. Revenues in U.S. dollars [1]	935	2,680	862	230	186	−73
12. Amount loaned Brazil	0	53,505	10,171	0	∞	−∞
13. Amount loaned Colombia	0	0	0	0	0	0
14. Amount loaned Guatemala	74,499	210,600	92,086	19,672	182	−78
15. Amount loaned Honduras	112,092	263,707	67,321	40,962	135	−39
16. Amount loaned Panama	0	8,800	3,000	5,800	∞	93

[1] Unaudited figures.

Source: Lenders' quarterly reports.

Mr. MILLS. An analysis of progress to date shows results varying by country. This is to be expected in an experimental program without precedent, whose success depends on changes in the host country attitudes, legislation, institutions, and practices. Initial program research and pilot operations indicate encouraging possibilities. At this time we are working closely with the fiscal and monetary authorities and the private lenders in three countries to test the program's feasibility on a revised and expanded basis.

EVIDENCE REQUIRED

Mr. LONG. What types of evidence (quantitative and/or qualitative) do you require an investor to furnish of benefits to (a) the host country and (b) the U.S. economy?

Mr. MILLS. OPIC requires information from the investor on the project's anticipated effects on the host country and to the U.S. economy. For the host country we look at several factors: revenues (domestic taxes, and so forth) to be produced through operation of the investment project; amount of local private participation in the project and of project-related items to be procured locally; downstream effects of the project; that is, creation of ancillary or supportive businesses; effects of the project on local prices; foreign exchange effects, including host country exchange savings from any import substitution and/or earnings from any export sales; employment effects, including training, during construction and operational phases; efficiency or competitiveness of the project, including details on any tariff or other protection; ecological aspects and whether discussed with the host government.

As regards the U.S. economy we consider the amount of initial U.S. dollar flows to the project by U.S. and other investors; amount of U.S. and other procurement during construction and operation; anticipated volume of U.S. exports to the project; estimated financial returns to the United States from the investment, including dividends, royalties, or licensing fees, and interest on loans; U.S. trade effects, including any project displacement of U.S. exports or increase of host country exports to the United States; whether any part of the investor's U.S. production facilities will be closed down.

Mr. LONG. With regard to the host country, do you require feasibility studies with cost-benefit and/or internal rate of return calculations to show benefits to host countries?

Mr. MILLS. No. The rate of return or cost-benefit approach to an individual project in the private sector overseas would be a difficult undertaking without reliable results. Economists differ among each other on the method and result of such analysis. Data are not available in most developing countries on many of the variables or factors which would go into such analysis, including the degree of present utilization of capacity and skills, figures on under and unemployment, alternative sources of financing, et cetera.

PROGRAM EVALUATION

Mr. LONG. Have you done or do you plan to do any postevaluations of projects to determine whether projected benefits to the host country actually materialized?

Mr. MILLS. Yes. OPIC has initiated a project monitoring program to periodically review and evaluate the actual benefits or larger projects to the host country and the United States. In addition, we conduct more general project evaluations and research on projects which have been in operation for a while. As mentioned earlier, the Harbridge House research on 20 mature investments insured by AID in the past provide strong evidence of positive results in most cases.

In the past, information on insured projects has been received from a variety of sources, including reports required to be filed as a condition of our contracts. Embassy reports on projects and the local economy frequently are good sources of information, and OPIC insurance officers visit projects and review the local economic effects.

EFFECTS ON U.S. EMPLOYMENT

Mr. LONG. With regard to the U.S. economy, on page 17 of your statement you mention the study of Professor Stobaugh of Harvard which argues that a net increase of 120,000 jobs in the United States is attributable to private manufacturing investment in developing countries. What is the evidence for this finding?

Mr. MILLS. The Harvard University study, led by Prof Stobaugh, was based on extensive studies of world patterns of trade, production, and investment as well as analyses of actual foreign investment decisions of U.S. corporations.

The study showed that the great majority of foreign investment in manufacturing is defensive in nature, in that a U.S. exporter must invest in facilities overseas in order to protect and maintain his foreign market penetration, or to compete in foreign markets, rather than to

serve the U.S. markets. Without many of these defensive U.S. investments, the opportunities would be seized by European, Japanese and other non-U.S. investors, with the result that U.S. exports of intermediate and capital goods would be lost or reduced.

The study differentiated between the ways that defensive and nondefensive foreign investments would affect U.S. export and employment generation or displacement. Nondefensive investments were considered to have negative effects while defensive investments were calculated to have a positive impact on domestic employment, especially when compared to the alternative of not making the foreign investment and losing the export markets in question. These calculations were adjusted to take into account instances of prematurely displaced exports (that is, cases where the U.S. foreign investment is made before the time that foreign competition or governmental restrictions could reasonably be considered to force U.S. exports out of the marketplace).

In addition the study recognized that U.S. foreign affiliates have a higher propensity to purchase capital goods, components, and finished products from the United States than do non-U.S. affiliated companies which, in the absence of U.S. investment, might be established to serve a foreign market.

The study did not take credit in U.S. employment terms for the earnings, dividends, and fees which are remitted to the United States from foreign investments and which increase public and private resources to buy domestic products and services. This would have increased the positive impact. The figure of an increase of 120,000 jobs reflects only the gain resulting from increased exports and other business activity such as home office functions related to foreign investment in manufacturing as compared to what would have been the situation without those investments. This figure does not include any of the U.S. jobs created by U.S. foreign investments in mining or service industries.

I.T. & T. CASE

Mr. LONG. If a corporation insured through OPIC were to interfere with the internal political and economic affairs of a developing country and then were to file a claim for expropriation, would the corporation's improper activities affect OPIC's judgment on the validity of the claim?

Mr. MILLS. We have been advised by outside counsel that it would be inappropriate for OPIC to comment on the ITT claim in any way so long as the question of ITT's right to compensation is still undecided. Naturally, this injunction extends to hypothetical questions such as this one dealing with substantially the same facts are are involved in the ITT case. Subsequent to this hearing, OPIC denied the ITT claim on several grounds related to contract terms. The case is expected to go to arbitration.

Mr. LONG. If this is proven to be the case with ITT in Chile, will this knowledge affect your judgment on the validity of ITT's claim?

Mr. MILLS. I am sorry, but as I said before it would be inappropriate for me to comment on the ITT claim at this time.

Mr. LONG. Do you think it is reasonable to expect developing countries to negotiate on compensation for nationalization of American corporations if these corporations interfere in their internal affairs?

Mr. MILLS. If in fact they do interfere, it is a matter for the host country's courts. However, the issue of compensation for nationalized properties can be separated from a claim of interference by a foreign corporation in the internal affairs of a developing country. If a government nationalizes the property of a foreign corporation, there is a clear duty on the part of such country under general principles of international law to pay prompt, adequate, and effective consideration. OPIC's contracts provide that it will not compensate an insured investor who provokes his own expropriation.

Mr. LONG. Do you propose to take actions or sanctions against U.S. corporations participating on OPIC programs who interfere in the internal affairs of host countries? If so, what actions? If not, why not?

Mr. MILLS. OPIC's contract governs the relationship with its investors and specifies the actions which OPIC may take and the sanctions it may apply. OPIC cannot speculate on the final outcome of the application of the OPIC contract to the facts in the ITT case. Upon final resolution of this case. OPIC may wish to reconsider the language of its contract in light of this question.

Mr. PASSMAN. Mr. Miller.

NEW AREAS OF CONCENTRATION

Mr. MILLER. Mr. Mills, I have a couple of questions. OPIC has introduced many new dimensions to the insurance and financing programs, you state the you have adopted programs "to cover new modes of investments such as construction and other technological contracts". Could you elaborate on that?

Mr. MILLS. Mr. Price, the head of our insurance, has been responsible for many of these. Joe, would you answer that question?

Mr. PRICE. The U.S. contruction industry has been, I think, justifiably complaining for a number of years that they are missing out on a lot of international competive bids because their Japanese, German, or other competitors receive certain assistance from their governments which the U.S. consstruction people don't get.

There was a conference held in 1970, the Hershey Action Conference, in which these arguments were made and discussions followed. We took it upon ourselves to try to see to what extent, using the insurance as a mechanism, we could provide certain protections that would make them more competitive for internationally bid jobs. We designed a special construction policy whereby we cover the basic risk of expropriation, war, and inconvertibility of currency.

We provide the U.S. contractor a binder before he bids. Previously when he was bidding he had to include a certain self-insurance factor. He is operating in a number of countries. He has got to include in his bid a cost factor to take care of possible expropriation, war damage and this sort of thing. We thought by establishing the pool for these contractors, charging our premium of 1.5 percent, which is less in many instances than what they would factor in, they could reduce their bids and help them become more competitive on these jobs.

We worked very closely with the Associated General Contractors in developing this policy, and we have had quite a bit of interest in this program. Now we are working to try to get more of the contractors using it, more of the binders issued, in the hope that this is at least one

way whereby the Government can provide assistance to make U.S. contractors more competitive in their international jobs.

Mr. MILLER. You have covered the new modes of investment such as construction. How about the other technological contracts.

Mr. PRICE. The other basic area is service contracts. More and more we are seeing U.S. firms not taking equity, but going in and doing a turnkey job or a technological job, and then being paid overtime as the job produces.

An example of one we are working on right now is an application by a subsidiary of Union Oil Co. to develop geothermal energy in the Philippines. This is a very important new source of energy. Union Oil developed the geysers in California. They have a long term service contract with the Philippine Government whereby they go in and expend a lot of funds to drill the steam wells and develop a delivery system. Then they deliver the steam guaranteed to produce energy to a facility built by the National Power Commission of the Philippines. As this energy is sold domestically, Union sets a certain percentage of the kilowattage hour, the mileage that is sold.

We are providing them an insurance contract that says we will insure this contract against abrogation or repudiation by the Government. I might add it has a provision for international arbitration which at our instigation was put into the contract. We say if the Government abrogates the contract you go to arbitration before the International Chamber of Commerce, you win the arbitration; and then you are not able to recover your expenditures the insurance will pay you for what you have put in, in other words, your deficit.

As soon as you cross over the line into a profit position, then the insurance terminates, so we are only covering in fact 90 percent of your deficit expenditures. This is one kind of new investment mode—a 25-year contract renewable for another 25 years, but with no equity position. They can't be accused of owning the natural resources of the Philippines. They are strictly providing a service, a very important technological service.

Mr. MILLER. If the gentleman will yield at that point, it is a 25- or 50-year contract but your insurance or service contract with the country would be for 25 or 50 years.

Mr. PRICE. We estimate that our insurance contract will terminate about year 12 or year 13.

Mr. MILLER. You are going to be in business for a while. We normally write today——

Mr. MILLS. By law 20 years maximum.

Mr. PRICE. This is considerably shorter than say the normal equity contract that has been written in this program.

TYPE OF INDUSTRIES INSURED

Mr. MILLER. One other point. You speak of the foreign programs similar to your particular OPIC's. At least 15 other nations set up insurance programs. We covered that pretty well a few minutes ago but I have a question or two I would like to try to clear up. I can understand those countries subsidizing the investment in a third country if it happens to be for a mine or for raw material that they need in order to produce and ship that raw material into their own country, and therefore refine or produce some commodity from this.

Are we doing that same thing? Is that you main intent? As an example, to mine bauxite in Jamaica and ship it here to produce aluminum, or do you also insure corporations that will be building plants in other countries that will be producing a high technology commodity and shipping back to the United States.

Mr. MILLS. Specifically in answer to your last question have very strict policies on runaway industries. In fact, I would like to put in the record our letter which we require of all companies to state to us that they are not closing down a plant and they are not partially closing down a plant. We simply do not do that.

Mr. PASSMAN. Without objection, the letter will be placed in the record at this point.

[The information follows:]

LETTER WHICH OPIC REQUIRES FROM INVESTORS REGARDING RUNAWAY INDUSTRIES

Subject: Investment insurance application No.

VICE PRESIDENT FOR INSURANCE,
Overseas Private Investment Corp.,
Washington, D.C.

DEAR SIR: The purpose of this letter is to advise you that our company has not, partially or wholly, closed down a U.S. production facility producing the same goods as will be produced and sold to the U.S. market by the overseas facility in which our new investment will be made. Moreover, it is not our present intention that the investment will have such effect on U.S. production facilities operated by us in the foreseeable future.

We understand that the statements contained in this letter are material representations affecting the eligibility of our investment for insurance, and that OPIC will act upon them accordingly.

Very truly yours,

_____.

Mr. MILLS. In response to your first question, on raw materials, because of the Chile situation, when I took over, my first question was, should we be in raw materials? Since we have been here at OPIC, and looking at it, we have had a very cautious raw materials policy. We have only done two policies. One was the Marinduque nickel mining project in the Philippines which was 70 percent owned by the Philippines. It was nickel, where we had a deficiency. We have tried to limit our interest to where the United States will have a future domestic production shortfall. Bauxite nickel and copper are the primary commodities. We have not gone into the other minerals to any extent. Looking ahead in the future, I think that we face such a critical raw material supply deficit that we must again consider this policy and devise new ways of assisting this country to get raw materials and develop secure sources of supply.

FUEL SHORTAGE

Mr. MILLER. I understand your insurance on raw materials because this is a must for us to have raw materials if we have that deficiency of supply, but by the same token not on a finished product. Also it brings up a point that you had mentioned some time ago, an hour or two before, concerning oil energy.

Mr. MILLS. We don't do anything with that. We have never done anything.

Mr. MILLER. One of our great problems today is energy and the fossil fuel shortage.

Mr. MILLS. As I understand it, there is a whole survey being made in the U.S. Government about our energy programs and how it is all going to fit together. Where OPIC is going to fit in this I cannot say at this time. But it is something we have got to relook and say okay, we as a matter of national policy are going to insure or not insure. That is your decision. It is the wisdom of Congress that will decide what we have to do. As a matter of administrative policy we are not doing it now and have not for the last 25 years for obvious reasons.

They did not need us. Now, the question is, Will they need us in the future? I do not know the answer.

We are specifically not allowed to do any lending programs or anything like that with them, but on insurance there has been an administrative decision to refrain from insuring oil investments. So we will look to the report coming and to the wisdom of Congress in making this decision.

Mr. MILLER. Mr. Chairman, I feel that maybe we have been 10 years behind on that particular problem. We do have at the present time an energy shortage.

Mr. MILLS. Yes, we do.

Mr. MILLER. But you are being blocked from helping, as I understand it, because you are not making any insurance or selling insurance that would encourage our companies to go out to explore, develop and bring the energy back here.

Mr. MILLS. That is correct. The Japanese have enormous programs in this field, they subsidize the exploration and the development of both raw materials and petroleum. It is a very definite policy of the Japanese, with the full support of their government.

Mr. YATES. Mr. Miller, will you yield on that point?

Mr. MILLER. Yes.

PROHIBITION OF ENERGY AND RAW MATERIAL DEVELOPMENT

Mr. YATES. You use the word "blocked"—blocked by whom or by what from exploring in the field of oil?

As I understand Mr. Miller's previous point, and I think it is substantiated by your answer, you said you were not looking for exploration or helping companies to explore the possibility of finding oil in other countries. And he drew the conclusion from that that you were being blocked. From what?

Who is blocking you from that?

Mr. MILLS. In the past, you know, the petroleum industry has not needed assistance to find oil. They have been very successful. In recent years this has changed. We are looking at whether our policy should change. But it is a rather recent phenomenon.

Mr. YATES. The question was "being blocked." You are just blocking yourself, then.

Mr. MILLS. Well, in our——

Mr. MILLER. Administrative decision?

Mr. MILLS. It is an administrative decision, but also in our law there are specific provisions which say that we shall not lend or finance surveys for the exploration of any minerals or petroleum.

Mr. YATES. Why should that be in the law?

Mr. MILLS. It is in the law.

Mr. YATES. I say why? It does not make sense, does it?

Mr. MILLS. It is in the law. It is your wisdom, it is not our wisdom. We have interpreted this very broadly that this was the intent of Congress.

Mr. YATES. Can your counsel tell us the exact provision to which you refer? What does it say?

Mr. MILLS. Certainly.

Mr. MAYS. I do not have the statute in front of me.

Mr. PASSMAN. Furnish it for the record.

[The information follows:]

RESTRICTIONS IN OPIC LEGISLATION RELATING TO ENERGY AND RAW MATERIAL PROJECT DEVELOPMENT

Foreign Assistance Act of 1969 as amended:

"Sec. 234(c) Direct Investment—

"No loans shall be made under this section to finance operations for mining or other extraction of any deposit of ore, oil, gas, or other mineral.

"(d) Investment Encouragement— . . . the corporation shall not finance surveys to ascertain the existence, location, extent, or quality, or to determine the feasibility of undertaking operations for mining or other extractions of any deposit of ore, oil, gas, or other mineral."

Mr. MAYS. If I can elaborate on what I understood the reason for this was. This legislation was introduced back in 1969; the international oil companies had operated successfully without AID's guarantee program abroad for a number of years. It seemed to be a higher risk or a different character of risk than was appropriate for OPIC to insure.

Mr. YATES. What this does is keep anybody else out of the field, does it not?

Mr. MAYS No, sir, it does not.

The companies, of course, can go ahead with or without OPIC's assistance.

Mr. YATES. I mean an outside company, an outside independent, for example, who wanted to try to explore on his own in Indonesia, for example, he could not get any help from you for this, could he?

Mr. MILLS. That is correct.

Mr. MAYS. There is an exception to Mr. Mills' general statement about OPIC not insuring the exploratory costs which are intangible costs. OPIC and AID did insure the oil rigs, the tangible equipment that could be removed from the country. But when you got into the intangible part, the drilling costs and the concession costs that were paid to the host government, those parts were not insured.

Mr. PASSMAN. It could be that these oil companies carried their own insurance, maybe with private companies. Do you know whether or not they are insured?

Mr. MILLS. We have been approached by a number of independents and we have turned them down based on past policy.

Mr. PASSMAN. Let's get an answer to my question.

Do you know whether the oil companies carry their own insurance?

Mr. MAYS. There are no insurers that will insure this type of risk.

Mr. PASSMAN. There are other advantages that other companies would not have, such as the depletion allowance. Is it not true that they have certain advantages that you would not have with other types of companies investing abroad?

Mr. MAYS. That is true.

Mr. PASSMAN. Would it also follow that maybe the investment would be prohibitive and OPIC could not cover it? You may have a request for $1 billion coverage because it costs a lot of money to go out into some of these countries to explore and discover oil and build refineries.

Mr. MAYS. It does.

Mr. PASSMAN. I think you ought to give us information on whether actually they are covered because we do have an energy crisis in this country. We might as well face up to it and maybe encourage investments abroad.

[The information follows:]

BRIEF STATEMENT ON AVAILABILITY OF PRIVATE INSURANCE FOR OIL INVESTMENTS

Long-term investment insurance against political risks is not generally available in any of the private insurance markets of the world. For this reason oil companies are not able to obtain the kind of insurance protection for their exploration and development operations which OPIC offers to other types of investments. Some of the syndicates at Lloyds of London have offered political risk insurance policies to oil companies in the past, but such policies have generally been restricted to 1- to 2-year terms and frequently have been at higher premium rates than that charged by OPIC.

Mr. YATES. How did the copper companies get coverage in Chile then?

Mr. MILLS. That comes under our insurance. Our law says no loan shall be made under this section to finance operations for mining or other extraction of any deposit of ore, oil, gas, or other mineral.

Mr. YATES. "Or other mineral"?

Mr. MAYS. That relates to the loan program, not the insurance program.

Mr. YATES. I see.

Mr. MAYS. We have been talking about insurance policy with regard to petroleum.

Mr. MILLS. Our law also says the corporation shall not finance surveys to ascertain the existence, location, extent or quality, or to determine the feasibility of undertaking operations for mining or other extraction, of any deposit of ore, oil, gas, or other mineral.

Mr. YATES. OK. Would you put that in the record?

Mr. MILLS. Very well.

[The information follows:]

RESTRICTIONS IN OPIC LEGISLATION RELATING TO ENERGY AND RAW MATERIAL PROJECT DEVELOPMENT

Foreign Assistance Act of 1969 as amended:

"Sec. 234(c) Direct Investment—* * *

"No loans shall be made under this section to finance operations for mining or other extraction of any deposit of ore, oil, gas, or other mineral.

"(b) Investment Encouragement—* * * the corporation shall not finance surveys to ascertain the existence, location, extent, or quality, or to determine the feasibility of undertaking operations for mining or other extraction, of any deposit of ore, oil, gas, or other mineral."

Mr. YATES. Thank you.

Mr. MILLER. I think this is important on the basis of the fuel shortage we have today. The basic law could be changed in order to help us gain additional fuels and it should be changed. I am glad it came out in the hearing.

Thank you.

TERMS OF INSURANCE POLICIES

Mr. PASSMAN. Thank you, Mr. Miller.

When you write an insurance policy, is it for an indefinite period?

Mr. MILLS. No. Maximum 20 years on equity. One thing we have done where we have large and sensitive industries, to 10–15 years we have shortened this down from 20 to 15 to 12 to 10, so that our exposure does not continue for so long.

Mr. PASSMAN. But the maximum is 20 years?

Mr. MILLS. The maximum is 20 years, Mr. Chairman.

RIGHT OF CANCELLATION

Mr. PASSMAN. All right.

They have a right of cancellation, but you do not; is that correct?

Mr. MILLS. That is correct.

Mr. PASSMAN. Is there any penalty clause in the event the companies decide to cancel a policy?

Mr. PRICE. They pay their premiums in advance. There are no refunds.

Mr. PASSMAN. Not for 20 years?

Mr. PRICE. No, each year.

Mr. PASSMAN. I know. It is understood you would have a short-rate cancellation if it is in 1 year, they are not apt to do that. But they can cancel their policies at any time?

Mr. PRICE. That is right. But if they cancel during the year or sell during the year or become ineligible during the year, there is no refund of that year's premium.

Mr. PASSMAN. That is pretty generally understood even among insurance agencies.

Mr. PRICE. They get back nothing.

Mr. PASSMAN. I know. It is just general business practice. It all depends on, I guess, the condition of the contracts as to whether they get back nothing.

Mr. PRICE. That could be a penalty of sorts.

Mr. PASSMAN. But you are bound and they are not?

Mr. MILLS. That is correct.

Mr. PASSMAN. Mr. Roybal?

Mr. ROYBAL. No questions.

Mr. PASSMAN. Gentlemen any other questions?

CASE OF I.T. & T.

Mr. YATES. Yes.

Newspapers have been talking about the fact that I.T. & T. tried to get help from the CIA to prevent the taking power of the Chilean Government. Did I.T. & T. come to you and ask for help?

Mr. MILLS. May I make a statement on I.T. & T.?

Mr. Chairman, I have a statement as follows:

Mr. PASSMAN. Off the record.

[Discussion off the record.]

Mr. MILLS. ITT has an application for compensation pending before OPIC. For the past year or so, with the assistance of outside lawyers, CPA's and engineers, OPIC has been evaluating this claim. At this moment, OPIC is in the final process of analyzing the available evidence and legal issues, with a view toward acting on the claim in the near future. I have been advised by our counsel that it would be inappropriate for me to comment in any way on the ITT claim so long as the question of ITT's right to compensation is still undecided.

Mr. YATES. I did not ask you anything about the claim.

Mr. MILLS. I wanted to get that in the record. There was some misunderstanding. Somebody made the statement we were going to pay the claim. I think they were talking about Kennecott instead of——

Mr. PASSMAN. No. I was talking about ITT. You cannot talk about it because the claim is pending, but it is a bona fide claim; they bought the insurance.

Mr. YATES. You did not answer my question.

My question was—Mr. Reporter, would you read my question to the gentleman again? It was so far back. The question I asked was this: The newspapers have indicated that at the time the Chilean Government was going to have an election and was about to take power through the election, I. T. & T. sought the aid of the CIA in trying to prevent that Government from taking over, presumably under the fear that its properties would be expropriated. This, too, would affect you.

My question was: Did any I. T. & T. officials or agents contact you and seek your help to prevent the present Chilean Government from taking power?

Mr. MILLS. That is a very easy question to answer.

OPIC was not in existence and I was not present.

Mr. YATES. The answer is "No," then?

Mr. MILLS. The answer is "No."

Mr. YATES. OK. That is what I was trying to get.

Mr. ROYBAL. That is not true. He is just talking about 2 years ago.

Mr. MILLS. OPIC only took office—excuse me. OPIC was only created January 19, 1971; the elections took place in 1970.

Mr. PASSMAN. OPIC was born January 1, 1971.

Mr. MILLS. We were not in existence.

Mr. MAYS. My experience went just beyond OPIC. I came into AID in 1969 in anticipation of OPIC. ITT notified AID of the possible expropriation as it was required to under its contract. Our dealings with ITT concerning its claim from that point, of course, are an integral part of our claims determination and that is the reason, of course, we do not want to discuss the facts until OPIC has made a determination on that claim.

Mr. YATES. I was not asking any question about that. I was just asking whether there was any intervention requested of you or of AID, if that is the predecessor, by ITT to try to prevent the Government from taking power in Chile.

Is the answer "No"?

Mr. MAYS. I think that is a part of the claims case and I would rather not respond if the committee——

Mr. YATES. In what way is it a part of the claims case? You mean the effort to try to stop the Government from taking the power is a part of the claims case.

Mr. MAYS. No, but it is so related to the claims aspect of the case that it is hard to draw a line and say——

Mr. YATES. I must say that I will look forward to getting that information with keen interest, because apparently the answer to my question then is not "No." The answer to my question is that you cannot answer it because of the pending case; is that correct?

Mr. MAYS. That is correct.

Mr. YATES. OK.

Mr. PASSMAN. Will the gentleman yield?

Mr. YATES. Yes.

Mr. PASSMAN. Before you move away from that point, you have a lot of very fine officials in ITT. They have a tremendous amount of money invested in this country and they meet an awful lot of payrolls. Without companies like ITT you could not exist very long. It is only natural the bigger you get, the more bad publicity you get. I am not coming to their defense, but ITT is not all bad.

Mr. YATES. Is it asking about the facts in the case if I were to ask you when ITT received insurance from OPIC?

Mr. MAYS. The contracts were issued by AID back——

Mr. YATES. By AID?

Mr. MAYS. AID, as early as 1964.

Mr. YATES. Are you saying all OPIC's role is is a possible assumption of liability?

Mr. MILLS. That is correct. That is what we were talking about earlier when the Chairman said we assume these enormous liabilities.

EFFECT ON U.S. EMPLOYMENT

Mr. YATES. All right. Now I notice your conclusion on page 17, and I wonder whether or not the American Federation of Labor would agree with your conclusion when you say that the OPIC programs help the U.S. economy by creating jobs in the United States.

Now you are loaning money to companies to go outside the United States and set up those companies, are you not?

Mr. MILLS. We did cover this at considerable length.

Mr. PASSMAN. Off the record.

[Discussion off the record.]

Mr. YATES. Did you also, Mr. Chairman, cover the estimate by Prof. Stobaugh?

Mr. PASSMAN. Yes. We are going to find out how much the professor got for preparing that marvelous report.

Mr. YATES. All right. I want to ask you——

Mr. LONG. I might say to the gentleman that I expressed great skepticism as to whether this did create additional employment—that is, more employment than if the money had been invested here in the United States instead of going abroad.

Mr. PASSMAN. Will the gentleman yield?

Mr. YATES. Sure.

Mr. PASSMAN. Will you place in the record the fee that was paid to the professor for this favorable report?

Mr. MILLS. We agreed to do that, yes.

Mr. PASSMAN. Let's discuss the expenses involved coming to and from Washington, whether he brought other people in. We want the total of that cost, including the expenses, not just the fee.

Mr. MILLS. I am not sure whether he ever came to Washington.

Mr. PASSMAN. You do not think so. Look at the record.

[The information follows:]

FEES PAID BY OPIC FOR HARVARD STUDY BY PROF. ROBERT STOBAUGH

OPIC did not contract with or pay Professor Stobaugh for this study. OPIC contracted directly with the Harvard Graduate School of Business and will pay Harvard a fee of $20,000 when an acceptable final report is received. This fee will cover all costs incurred in making the study including salaries, materials, overhead, secretarial assistance, communications costs, and others. Professor Stodbaugh was assigned by Harvard to do the study, and during that time received his normal professor's salary and nothing additional.

Mr. YATES. When you offered your reinsurance, you indicated that you go to a broker. Does the broker get a fee from you or from the reinsuring company?

Mr. MILLS. The reinsuring company pays, we do not pay him anything.

EFFORTS OF THE JAPANESE

Mr. YATES. Do the Japanese loan money—strike that.

You have a statement on page 13.

Mr. MILLS. They do loan money to their corporations.

Mr. YATES. They do loan money to promote overseas exploration?

Mr. MILLS. Yes, sir, and they have an integrated program for encouraging mining and oil investments.

Mr. YATES. Do they also protect against expropriation?

Mr. MILLS. Yes. Theirs is the second biggest in the world and rapidly rising.

Mr. YATES. I would like to have a statement about what the Japanese are doing, put in the record.

Mr. MILLS. We would be pleased to supply it. I think it is a very important point.

[The information follows:]

JAPAN'S OVERSEAS MINERALS INVESTMENT PROGRAM

Japan's rapidly expanding program of overseas minerals development strikingly demonstrates the workings of the world's eighth wonder, "Japan, Inc." In this program are found all the elements that term implies—an intimate collaboration of sophisticated resource supply/demand analyses by government and industry, consensual planning targets, governmental financial and fiscal subsidies, special public corporations, private Japanese operating companies and banks, public banks, foreign joint ventures, trading company marketing-financing schemes, all liberally seasoned with nationalistic dedication and drive.

The driving force is necessity, emotionally felt and widely understood in an insular, resource-short nation. The need for minerals is determined by burgeoning industrial and consumer demand, projected on the world's fastest growth curves by public and private econometricians. Japan already is so dependent on imports of minerals (ranging from 75 percent in the case of copper to 99.7 percent for petroleum) that it has passed the United States as the largest minerals importer ($8.4 billion worth in 1970). By 1980, if the GNP growth rate of the 1960's were maintained, Japan would require 30 percent of all the mineral resources expected to be available for international trade.

This import dependence is dangerously concentrated on a few sources: 68 percent of Japan's copper ore imports come from the Philippines, 98 percent of bauxite from Australia, Indonesia, and Malaysia, and 86 percent of nickel from

New Caledonia. Most imports are commercial transactions with foreign suppliers, with consequent vulnerability to price and supply shifts more extreme than might be faced by a country whose importers also are involved in the ownership and/or management of foreign mineral sources.

Japan's response to this major economic problem has been systematic and big league. The Ministry of International Trade and Industry (MITI) makes the grand design and directs some of the key actors. MITI's October 1971 "White Paper on Mineral Resources" for the 1970's sets the indicative planning targets and policy line:

> Five billion dollars in combined public and private investment in exploration/development of minerals, largely overseas, in the first half of the decade, $10 billion in the second half, for a total of $15 billion—"the largest element in Japan's foreign investment" in the 1970's;
>
> A radical increase in Japanese direct equity investment in overseas minerals projects, with preference for joint ventures, as well as expanded use of the Japanese-pioneered loan-production sharing and long-term minerals-purchase contract forms of investment;
>
> Planning targets broken down by type of mineral, type of Japanese investment and geographic area for achievement by 1980;
>
> Policies featuring (a) increased linking of offical economic aid with overseas minerals development projects; (b) closer cooperation with minerals companies of both other advanced countries and host countries; (c) greater diversification of supplier countries; (b) transfer of some early stages of minerals processing from Japan to the source countries so as to deal with Japan's pollution problems and accede to demands of the less-developed countries for greater economic benefits from minerals exploitation.

The executing agencies of this policy are:

Thee Metallic Minerals Exploration Agency of Japan, which makes loans covering 60 percent and in some cases 70 percent of the cost of exploration by major Japanese mining companies (normally 5-year term but going up to 9-year with 1-year grace at 7.5 percent interest); guarantees loans for development and operation of mines outside Japan; subsidizes geological surveys with its own or other Government funds (including Japanese aid program funds); and collects and disseminates information on minerals surveys undertaken by others.

The Japan Petroleum Development Corporation, which provides risk capital to Japanese corporations or Japanese participants in joint exploration ventures, including both equity and quasi-equity (e.g., loans with up to 8 years grace which are written off if a profitable oil field is not discovered); JPDC also guarantees long-term investment loans by Japanese financial institutions for development and operation of oilfields; conducts geological surveys and collects and disseminates survey information obtained by others.

The Export-Import Bank of Japan, which joins with the major commercial banks in making tied loans to Japanese overseas investors (not to foreign enterprises) and to Japanese importers in support of their supply contracts with foreign producers; makes tied loans to foreign governments to finance their capital contributions to foreign firms in which Japanese investors have or intend to have substantial interests; and guarantees loans made by Japanese private lenders to finance both capital exports and services related to overseas investments and imports of important materials produced by overseas projects.

The overseas economic cooperation fund, which makes tied development loans on both concessional and near-commercial terms to foreign public agencies and governments and to Japanese enterprises investing in developing countries.

The Finance Ministry, which grants tax privileges to Japanese investors in overseas minerals development—principally a deduction of 50 percent of the investment in the first year for a reserve against political or commercial loss, and a depletion allowance of 15 percent of sales (subject to recapture if the amount of the deduction is not invested in further exploration). These tax concessions are in addition to export-incentive tax measures, such as accelerated depreciation, reserve for development of overseas markets, deductions for export-promotion and export income, and entertainment allowances.

The MITI investment insurance program, which provides the same 90 percent coverage of political risks of mineral investment as any other overseas investment, in both developed and less developed countries, at the standard 0.55 percent insurance fee. MITI expects minerals investment to pace a rapid expansion of its investment insurance portfolio in the 1970's, rising to 55 percent of total Japanese overseas investment by 1980.

The Japanese trading companies and affiliated city banks, which work with increasingly sophisticated Japanese equipment manufacturers and Japanese minerals-fabricating and petrochemical companies in packaging the capital and

marketing elements of an overseas investment project so as to meet competition and political requirements.

General and specialized industry associations, which provide a forum for reaching a Government-business consensus on investment policy and related Government support.

And, the private members of the mixed team, the Japanese mining and petroleum companies themselves.

The whole system operates in the highly debt-leveraged pattern of Japan's postwar economic expansionism. Faith in spectacular economic growth rates and rising productivity, so far largely confirmed by events, has become entrenched in Japanese business and Government decisions. This national confidence, coupled with the phenomenal personal savings habits of the Japanese and a keen sense of vulnerability to minerals-supply controls by foreigners, permeates the whole Japanese overseas minerals investment program.

Mr. PASSMAN. Would you also state for the record that many of their markets are former U.S. markets? We priced ourselves out of the world market, so they came in with their program and undersold us; is that not about right?

Mr. MILLS. Yes.

Mr. YATES. You make the point that the Japanese and the French are moving in the field of needed raw materials, mines and gas, oil fields.

Mr. MILLS. They have special programs for this.

Mr. YATES. I would hope we would too. But again, this is——

Mr. MILLS. We do not now.

Mr. YATES. Thank you, Mr. Chairman.

Mr. PASSMAN. Any other questions, gentlemen.

OTHER COUNTRYS' PROGRAMS

Mr. MILLER. If we could have for the record, Mr. Chairman, one other thing. Mr. Yates mentioned the Japanese and their program of insuring overseas investments.

Mr. MILLS. Correct.

Mr. MILLER. Also, you list the German and the European Economic Community.

Mr. MILLS. And the French, the English, the Belgians, the Dutch, and the Finns.

Mr. MILLER. Yes; but you do not list all of those. You list, as I see, three: Japanese, German, and European Economic Community, apparently as the main areas. They are the main insurers.

Mr. MILLS. Each European nation is a principal insurer, that is correct.

Mr. MILLER. They come under one heading?

Mr. MILLS. No. European Economic Community proposal is a new one, that is the Common Market. That is in addition to the other programs. They said we are also going to have a program.

Mr. MILLER. They are on top of each member country?

Mr. MILLS. It could be. This is a proposal they are making.

Mr. MILLER. I would like to see in the record additional information on the Germans and European Economic Community.

Mr. MILLS. And any other programs?

Mr. MILLER. Well, we do not want a report of 500 pages.

Mr. MILLS. No. There is a report put out by the OECD on the competitive programs which we would be glad to supply.

Mr. MILLER. If you could supply that for the record, I would appreciate it.

[The information follows:]

INFORMATION ON INVESTMENT INCENTIVE PROGRAMS SPONSORED BY OTHER GOVERNMENTS

SUMMARY OF GUARANTEE SCHEMES FOR OVERSEAS DIRECT INVESTMENT[1]

DAC countries,[2] name of executive agency or department	Types of risks insured: (a) expropriation risks, (b) war risks, (c) transfer risks (I)	Geographic coverage: (a) worldwide, (b) developing countries only, (c) countries having signed bilateral agreement only (II)	Type of investment covered:[3] (a) equity, (b) loans and advances, (c) licenses and royalties, (d) other (III)	Legal eligibility requirements: (a) development effect, (b) link with national export, (c) global ceiling (IV)	Coverage of principal and earnings:[4] (a) initial investment, (b) reinvested earnings, (c) remitted earnings (percent of original investment) (V)	Coverage in case of loss: basis for evaluation (VI)
Australia: Export Payments Insurance Corp. (EPIC).	(a), (b), (c)	(a)	(a), (b), (c)	(b), (c) $122,000,000	(a) 100 percent, (b) 100 percent, (c).	Financial statements.
Belgium: Office National du Ducroire	(a), (b), (c) and catastrophic risks in some cases.	(a), (c)	(a), (b)	(a), (b), (c) $18,800,000	(a), (b), (c)	Phasing out on a case-to-case basis.
Canada: Export Development Corp. (EDC).	(a), (b), (c)	(b)	(a), (b), (c)	(a) and (b), (c) $150,000,000.	(a) 100 percent, (b) 50 percent, (c) 150 percent (total cover limit: 200 percent).	Do.
Denmark: Danish International Development Agency (DANIDA).	(a), (b), (c)	(b)	(a), (b), (c)	(a), (b), (c) $70,000,000	(a) 100 percent, (b), (c) 8 percent per annum for up to 3 years.	Financial statements.
France: Caisse Centrale de Coopération Economique.	(a), (b), (c) for capital only.	(b) But presently applicable to 14 countries only, (c) for countries other than the above.	(a) Only, in principle, (b) exceptionally long-term loans from shareholders.	(a), (b)	(a) only	Schedule of amortization: 20 percent of the original nominal amount per year over the last 5 years of coverage.
Germany: Deutsche Revisions—und—Treuhand AG and Interministerial Board.	(a), (b), (c)	(b), (c) in principle (39 countries).	(a), (b), (c)	(a)	(a) 100 percent, (b) 50 percent, (c) 8 percent per annum for up to 3 years.	"Going concern" value not exceeding capital brought in.
Japan:[5] Ministry of International Trade and Industry (MITI).	(a), (b), (c) and credit risks in some cases	(a)	(a), (b), (c)	(a)	(a) 100 percent, (b) 100 percent, (c) 10 percent per annum and up to 100 percent over the contract life.	Financial statements.
Netherlands: Netherlands Credit Insurance Company.	(a), (b), (c)	(b), (c) in principle	(a), (b), (c)	(a), (b)	(a) 100 percent, (b) 50 percent, (c) 8 percent per annum.	Limited amortization during last 5 years of coverage.
Norway: Institute for Export Credits Guarantees.	(a), (b), (c)	(a)	(a) or (a) and (b) together.	(a), (c) $90,000,000 (covering both export credits and investments).	(a) 100 percent, (b), (c) 7 percent per annum up to 3 years.	Fixed schedule of amortization—starts normally after 3 years.

Sweden: Swedish Export Credits Guarantee Board (EKN).	(a), (b), (c)	(b) 11 countries only	(a), (b)	(a), (c) $80,000,000	(a) 100 percent, (b), (c) 8 percent per annum of maximum coverage not exceeding 24 percent of initial amount invested.	Phasing out on a case-by-case basis.
Switzerland	(a), (b), (c) in addition insolvability or refusal to pay by local public entities.	(b) in principle	(a), (b), (c)	(a), (b), in some cases, (c) $130,000,000.	(a) 100 percent, (b), (c) up to 24 percent of principal.	For equity, in principle regular amortization (around 5 percent per year).
United Kingdom: [3] Export Credit Guarantee Department (ECGD).	(a), (b), (c)	(a)	(a), (b), (c)	(c) $650,000,000	(a) 100 percent, (b) 100 percent, (c) 200 percent (total cover limit: 200 percent).	Financial statements.
United States: [6] Overseas Private Investment Corporation (OPIC).	(a), (b), (c)	(b), (c) (to date some 92 countries).	(a), (b), (c), (d)	(a), (c) 1970–74 authority for $7,500,000,000 new insurance.	(a) 100 percent, (b) 100 percent, (c) 200 percent (total cover limit: 200 percent).	Financial statements phasing out for large and sensitive projects.

See footnotes at end of table

SUMMARY OF GUARANTEE SCHEMES FOR OVERSEAS DIRECT INVESTMENT[1]—Continued

DAC countries,[2] name of executive agency or department	Coverage in case of loss payable (VII)	Annual premium rates, percent of current amounts except if otherwise shown (VIII)	Duration of coverage (IX)	Date of effective establishment (X)	Total guarantee outstanding (in U.S. dollar approximate equivalent) (XI)	Current volume of new guarantee extended (XII)
Australia: Export payments Insurance Corp. (EPIC).	Up to 90 percent	0.75 percent on current amount (0.25 percent per risk) plus half the above on standby amount.	Normally = minimum 5 years; maximum 15 years.	1966	Year-end 1971: $49,000,000	1971 = $25,800,000.
Belgium: Office National du Ducroire	do		Up to 15 years	February 1971	(3)	(3).
Canada: Export Development Corp. (EDC).	Up to 85 percent	0.30 percent for each of the 3 risks, plus ½ of 1 percent on standby amount.	do	1969	Year-end 1971: $3,600,000.	1971 = $3,600,000.
Denmark: Danish International Development Agency (DANIDA).	Up to 85 percent or 90 percent.	0.5 percent for the 3 risks together.	do	1966	Year-end 1971: $11,700,000.	1971: $4,500,000.
France: Caisse Centrale de Coopération Economique.	75 percent normally, up to 90 percent in some cases.	0.8 percent per year	do	January 1971	(3)	(3).
Germany: Deutsche Revisions—und—Treuhand AG and Interministerial Board.	Up to 95 percent	0.5 percent of current amount for the 3 risks together.	Normally = up to 15 years, exceptionally = up to 20 years.	1950	Year-end 1971: $341,000,000.	1971: $78,100,000.
Japan:[4]						
Ministry of International Trade and Industry.	Up to 90 percent, up to 80 percent for credit risks.	0.55 percent for the 3 risks together and 0.70 when credit risks are added.	Normally up to 15 years	Capital 1956, profits 1957, merger 1970.	Year-end 1971: $17,000,000.	1971: $103,000,000
Netherlands:						
Netherlands Credit Insurance Company.	Up to 90 percent	0.8 percent for the 3 risks together.	Up to 15 years following completion of the investment.	1959	Year-end 1971: $17,000,000.	1971: $13,000,000
Norway:						
Institute for Export Credits Guarantees	do	0.5 percent of maximum amount for the 3 risks together.	Up to 20 years	1964/5	Year-end 1971: $16,600,000.	(3).
Sweden:						
Swedish Export Credits Guarantee Board (EKN).	Up to 80 to 90 percent	0.7 percent for the 3 risks together.	Normally up to 15 years exceptionally up to 20 years.	1968	(3)	

Switzerland	Up to 70 percent	Normal rates: Principal: 1.25 percent, profits: 4 percent of expected profits.	15 years in principle	1970	Mar. 31, 1972: $11,000,000.	(7).
United Kingdom: [3] Export Credit Guarantee Department (ECGD).	Up to 90 percent	1 percent for the 3 risks together plus ½ percent on standby amount.	Up to 15 years	1972	(8)	(7).
United States: [6] Overseas Private Investment Corporation (OPIC).	Up to 100 percent, 50 percent for large and sensitive projects.	(a) 0.30 percent (convertibility), (b) 0.60 percent (expropriation), (c) 0.60 percent (war) plus 0.25 percent on standby amount.	Equity = maximum 20 years,[9] loan = duration of the loan up to 20 years.	1948	June 30, 1972, maximum liability $9,900,000,000 current liability $5,400,000,000.	12 months to June 30 1972, $635,000,000 (maximum liability).

[1] Direct investment here includes minority equity participation and also "portfolio participation" to the extent they reflect a substantial interest in the project (e.g. in the management or the profits of the company, through purchase of output, etc.). Provisions of individual schemes may in some cases not correspond exactly to the common classification adopted in the table. Details of the various schemes, however, are provided in individual country chapters below. Financial amounts are expressed in U.S. dollar equivalent, at the IMF exchange rates as of the end of 1971.

[2] To date (August 1972, 3 member countries have no comprehensive schemes (Austria, Italy, Portugal). Portugal has a guarantee scheme for loans to firms in the Provinces made by Portuguese or foreign investors. As regards Austria, there is a scheme which relate only to a limited category of investments connected with export operations.

[3] The coverage can apply to equity and loan participations, and to fees and royalties. The investment can be made in various forms: cash, machinery, goods, know-how and services, etc. (d) Above covers specific situations such as production-sharing agreements.

[4] This column shows the coverage of principal and earnings for equity investments only. As regards loan investments, schemes usually wholly cover outstanding principal and interest, or interest up to 100 percent of principal (United Kingdom).

[5] The table takes into account the revisions made on the Japanese scheme as of January 1972, and following the merger in April–May 1970 of the two existing schemes for capital and profits respectively.

[6] The table gives a presentation of the U.S. political risk investment insurance program only. The loan guaranty program has not been inserted in the table; data on this latter program are provided in the chapter on the United States.

[7] Nil or not applicable.

[8] Not available.

[9] Except expropriation for large or sensitive projects, for which the duration of coverage is limit d to 12 years.

OTHER U.S. AGENCIES INVOLVED IN INSURANCE

Mr. PASSMAN. I believe we have one other Government agency that writes insurance abroad and that is the Export-Import Bank, is that correct?

Mr. MILLS. Eximbank does insure against political risks associated with U.S. exports.

Mr. PASSMAN. Do they?

Mr. MILLS. Yes. "Requisition, expropriation, or confiscation of or intervention in the business of the buyer or guarantor by a governmental authority occurring on or before the date of default."

Absolutely correct.

Mr. PASSMAN. What other agencies have overseas insurance?

Mr. MILLS. The Federal Aviation Administration has overseas insurance for airplanes, the Maritime Administration for ships, the Export-Import Bank for exports.

Mr. PASSMAN, Thank you, gentlemen. I believe that will be all.

The Committee is adjourned.

TUESDAY, APRIL 3, 1973.

INTER-AMERICAN FOUNDATION

WITNESSES

WILLIAM M. DYAL, JR., PRESIDENT
LEON M. PARKER, EXECUTIVE OFFICER

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 est.	1974 est
Program by activities:			
1. Social and economic development programs	2,847	3,500	13,285
2. Program support services	1,125	1,500	1,715
Total obligations	3,972	5,000	15,000
Financing:			
Unobligated balance available, start of year	−49,634	−45,652	−40,652
Unobligated balance available, end of year	45,652	40,652	25,652
Budget authority			
Relation of obligations to outlays:			
Obligations incurred, net	3,972	5,000	15,000
Obligated balance, start of year	183	2,575	2,635
Obligated balance, end of year	−2,575	−2,635	−9,676
Outlays	1,579	4,940	7,959

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Personnel compensation:			
Permanent positions	617	789	930
Positions other than permanent	18	20	20
Other personnel compensation	3	5	5
Special personal services payments	113	195	207
Total personnel compensation	751	1,009	1,162
Personnel benefits: Civilian	52	76	88
Travel and transportation of persons	95	176	213
Rent, communications, and utilities	131	137	141
Printing and reproduction	4	4	4
Other services	48	56	63
Supplies and materials	18	27	34
Equipment	25	15	10
Grants, subsidies, and contributions	2,847	3,500	13,285
Total obligations	3,972	5,000	15,000

PERSONNEL SUMMARY

Total number of permanent positions	50	65	70
Full time equivalent of other positions	3	3	3
Average paid employment	40	54	61
Average GS grade	10.5	10.5	10.3
Average GS salary	$16,044	$15,915	$15,731

Mr. PASSMAN. The committee will come to order.

We shall consider this morning another one of the many programs covered under the foreign aid program. Today we will take up the Inter-American Foundation. You are operating under a limitation, are you not, rather than a direct appropriation line item?

FUNDING HISTORY

Mr. DYAL. The funds were transferred from an original AID appropriation, yes, sir. The funds were transferred, $50 million.

Mr. PASSMAN. But it has not been put in a spending category. The funds have been earmarked and you have been chipping away at that total ever since the foundation was set up, is that a statement of fact? All the funds have not been obligated?

Mr. DYAL. The funds have not been obligated in total, that is right.

Mr. PASSMAN. It is a question of establishing an annual limitation on what you can withdraw from the amount that has previously been transferred.

Mr. DYAL. Yes, sir, that has been the history.

Mr. PASSMAN. The funds have been reserved, but not obligated as such for expenditure.

Mr. DYAL. Right.

Mr. PASSMAN. Last year the committee and the Congress placed a limitation of $5 million on your obligations.

Mr. DYAL. In 1972, Mr. Chairman, it was $10 million.

Mr. PASSMAN. I didn't say anything about 1972. I said 1973. Is that right?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. My apologies, I wanted to get an answer. This year you are asking for $15 million. You are familiar with the fact that the President has impounded a lot of funds for many, many projects in America, are you not?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. And many of them with better justifications than this outfit. I want to admire you for being able to look me straight in the eyes when you only got $5 million last year and this year you are asking for $15 million while all projects in America are being cut substantially. Do you support Dr. Hannah in his statement that there is an asking price and a taking price? This is your asking price, is that right?

Mr. DYAL. Yes, sir; that is right.

Mr. PASSMAN. And you will accept the taking price when it comes along, is that correct?

Mr. DYAL. That is the history.

Mr. PASSMAN. That is the history. Of course, it has caused me a lot of concern when you inflate your request knowing you are not going to get this amount of money but that seems to be par for the course, so we won't single you out for criticism.

I would assume that you have a statement you would like to make for the record.

GENERAL STATEMENT

Mr. DYAL. Yes, Mr. Chairman, a brief statement.

Mr. Chairman, I am here today to support the President's budget request for your approval of a $15 million limitation on the Inter-American Foundation's obligations for fiscal year 1974.

The Inter-American Foundation was created by Congress as a public corporation in the Foreign Assistance Act of 1969. Multiyear funding was authorized and Public Law 91–175 made available up to $50 million of appropriated funds for the programs of the Foundation with said funds remaining available until expended.

FOUNDATION MANDATE

The original mandate to the Foundation from the Congress was that it find innovative and creative means for supporting social development in the hemisphere. The Foundation received a similar mandate from the President of the United States. President Nixon upon naming the Board of Directors expressed the hope that the Foundation would develop "a fresh approach to new and experimental efforts by private organizations to social and institutional development, particularly in the areas of education and agriculture."

Mr. Chairman and members of the subcommittee, the Board of Directors and the staff of the Foundation have earnestly sought to develop a program commensurate with the mandate which the Congress and the President entrusted to them.

BOARD OF DIRECTORS

The foundation's board of directors is a working board. It generally meets each month and carefully reviews each Foundation grant. The board is made up of four members from the private sector and three from the public sector. Included are three corporate executives, a professor of business administration, a former Governor, a former banker, and the Administrator of the Agency for International Development who was formerly the president of a great university.

OPERATING PHILOSOPHY

In establishing the operating procedures for the foundation, the board decided that the foundation should support small scale local efforts of people in Latin America and the Caribbean to solve their own "grass roots" economic and social development problems. It was the Board's decision that this support should be in the form of grants to private and semiautonomous groups in Latin America and the Caribbean and that these grants should be designed to leverage local resources by providing seed capital and matching funding. I cannot emphasize too strongly this concept of "leveraging" local resources. Our purpose is to support ongoing local efforts to solve problems without creating future dependence on the foundation for funds. A num-

ber of our grants provide that we match $1 for every $1 that the grantee raises locally up to a certain amount. This local contribution is doubly important since our financial commitment to the projects we fund is on a one-time basis. The foundation does not have the resources to continue to fund a project year after year. We believe that in the end people must solve their own development problems. What the foundation can do, however, is to increase the means of groups to solve their own problems by helping to stimulate local resources.

The board felt that the foundation must be quickly responsive in processing grant applications and that there should be no more than a 4-month period between the time a proposal was received and a final funding decision was made.

The board also decided that the foundation should attempt to learn from the projects it funded and to disseminate the knowledge throughout the hemisphere.

OPERATING STRUCTURE

Before the foundation began operations the board consulted with several hundred Latin specialists from this country, Latin America, and the Caribbean. The board then formulated the framework and structure of the institution, defined operational rules, selected the foundation president and set guidelines for staff appointments. In designing the operating structure the board decided that the foundation should remain small with a minimum of bureaucracy. They decided that it should be a staff of generalists with both living and working experience in Latin America and the Caribbean. The board also decided that there should be no resident overseas staff.

A 2-YEAR RECORD

The Foundation began operations in March of 1971. During the first year of operations a staff was recruited and a wide range of contacts was established throughout the hemisphere. In November of 1971, the Foundation made its first project grant. In the 16 months since that date, the Foundation has approved grants totaling $7,074,242 for 49 projects.

At this point I would like to place in the record a summary description of each of the Foundation's grants made during the 1973 fiscal year. I would be happy to discuss any of these grants with the subcommittee.

The staff of the Foundation has been kept small. Although the authorizing legislation allowed for a staff of "not to exceed 100 persons," the Foundation has found to date that it can function effectively with a staff of approximately half that size.

The Foundation has continued to try to respond to all proposals within a 3 to 4 month time frame. Attempts are being made constantly to tighten procedures in order to be able to consider proposals carefully and thoroughly but at the same time to make a final decision within the shortest possible period.

Although the Foundation has no public relations staff, we are pleased that the institution has received widespread favorable publicity, completely unsolicited, throughout Latin America and the

Caribbean. Writers from several publications in the United States, including the Reader's Digest, are also planning articles on the work of the Foundation.

The Foundation is realistic about the impact it can have with its limited resources. The chief concern is to reinforce Latin American and Caribbean self-help efforts to solve their own problems.

FISCAL YEAR 1974 BUDGET REQUEST

The Foundation's budget request for fiscal year 1974 is for a limitation on obligations of $15 million. The Foundation currently has 43 proposals totaling $6,310,207 under active review. The Foundation estimates that it will have in excess of $10 million in proposals in hand when the 1974 fiscal year begins.

The budget for next year calls for $13,285,000 in program funds for grants for Latin American and Caribbean projects, and $1,715,000 in program support funds.

BILATERAL ASSISTANCE

Mr. Chairman and members of the subcommittee, the Board of Directors and the Foundation staff recognize that this organization is only one small part of the total foreign assistance picture. We know that there are many at this time who are critical of bilateral assistance and say that all U.S. foreign assistance should be channeled through international organizations. We beg to disagree. We firmly believe, based on our 2 years of experience, that there is a role in U.S. foreign assistance for a small organization such as the Inter-American Foundation which is directly responsive to local Latin American initiatives on a people-to-people basis.

[Certain information follows:]

INTER-AMERICAN FOUNDATION

BOARD OF DIRECTORS

Augustin S. Hart, Jr., chairman, group vice president, Quaker Oats Co.
George C. Lodge, vice chairman, Graduate School of Business Administration, Harvard University.
Charles W. Robinson, president, Marcona Corp. of San Francisco.
Hon. Louis A. Ferre, former Governor of the Commonwealth of Puerto Rico.
Hon. Charles A. Meyer, vice prseident of Sears & Roebuck, and former Assistant Secretary of State for Inter-American Affairs, Department of State.
Hon. John Richardson, Jr., Assistant Secretary of State for Educational and Cultural Affairs, Department of State.
Hon. John A. Hannah, Administrator, Agency for International Development.

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 U.S. 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 1930 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."

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 & 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.

LUIS ALBERTO FERRE

Mr. Ferré is the former Governor of Puerto Rico. 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 Ferre Industries; chairman of the board and president of Ponce Hotel Corp.; treasurer of Igualdad, Inc., and director of the Bank of Ponce. Mr. Ferre holds a B.S. from Massachusetts Institute of Technology; an LL.D. from Springfield College, Massachusetts; DCL, University of Puerto Rico; and doctor of humanities from the Inter-American University of Puerto Rico. He 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 Knights of the Holy Sepulchre from Pope John XXIII.

CHARLES APPLETON MEYER

Mr. Meyer is presently vice president of Sears, Roebuck, and former Assistant Secretary of State for Inter-American Affairs. After receiving his B.A. from Harvard University in 1939, he became associated with Sears, Roebuck & Co. for 30 years. He was Sears' manager of foreign administration, president of the Bogota, 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., Gillette 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 for Philadelphia.

JOHN RICHARDSON, JR.

Mr. Richardson has been Assistant Secretary of State for Educational and Cultural Affairs since 1969. Currently, he is Acting Assistant Secretary of State

for Public Affairs. With an A.B. and L.L.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 & Cromwell of New York for 6 years. He subsequently joined Paine, Webber, Jackson & 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 aid 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).

JOHN ALFRED HANNAH

Dr. Hannah was sworn in as Administrator of the Agency for International Development on April 2, 1969, 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-United States; Chairman, Federal Commission on Civil Rights; member, International Development Advisory Board, point 4 program, and has held numerous other Government appointments. Dr. Hannah, among other distinctions, is a recipient of the Medal of Freedom Award; an honorary president of the Association of State Universities and Land-Grant Colleges; and former chairman of the American Council of Education.

PRESIDENT—WILLIAM M. DYAL, JR.

Born: May 13, 1928, Austin, Tex.

Education: AB, Baylor University, Waco, Tex., M. Th., Southern Theological Seminary, Louisville, Ky.

Special studies: School of Languages, San Jose, 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 19; Deborah, 13; Lisa, 9.

Experience: March 1971 to present: President, The Inter-American Foundation, 1515 Wilson Blvd., Rosslyn, Va. Created by an act of the Congress, the foundation is a public corporation designed to support social development efforts of the Latin American and Caribbean peoples.

September 1969 to 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.

January 1967 to 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 six regional offices, with an annual budget of $2 million. Developed new programs with the Government of Columbia 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 architectural consultants.

June 1963 to 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.

June 1954 to January 1962: Representatives, Foreign Mission Board, Guatemala, Costa Rica, Argentina.

Publications: Book, author "It's Worth Your Life," Association Press, 1967 (award winner, best seller); book contributor, "The Cutting Edge," World 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.

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EXECUTIVE OFFICER—LEON M. PARKER

Mr. Parker accepted his assignment as Director of Administration and Finance in March 1971.

Prior to his appointment to the Foundation he worked for the Peace Corps, where over a period of several years he was a budget analyst in Washington, an associate director for administration in Dar-es-Saleem, Tanzania, Deputy Director of the Office of Administration in Washington, then Deputy and Acting Director of the Office of Administration and Finance.

He received a B.A. degree from the University of New Hampshire in 1959, began his public service career that same year as a management intern with the Department of the Navy. Following his intern training and brief active duty with the U.S. Army Reserves, he worked in the Navy Comptroller's Office as a statistical analyst. He then spent 2 years in the special projects office as a budget analyst and programing officer in support of the Polaris fleet ballistic missile system.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will also insert in the record the justification at this point.

[The information follows:]

INTER-AMERICAN FOUNDATION

Supplemental Budget Data
in Support of
FY 1974 Budget

The attached tables and summaries reflect the utilization of Foundation resources released by the Congress thru FY 1973, and are offered in support of our request for the release of $15 Million of our resources for use during FY 1974.

Data as of February 28, 1973

FY 1974 Appropriation Language Request
Contained in the President's Budget
January 1973

Inter-American Foundation

The Inter-American Foundation is authorized to make such expenditures within the limits of funds available to it and in accordance with law, and to make such contracts and commitments without regard to fiscal year limitations as provided by section 104 of the Government Corporation Control Act, as amended (31 U.S.C. 849), as may be necessary in carrying out its authorized programs during the current fiscal year: Provided, That not to exceed $15,000,000 shall be available for such programs during the current fiscal year.

PROGRAM FUNDS

This package includes a summary listing of all projects utilizing Program Funds approved by the Foundation thru the 28th of February, 1973.

The summary sheet reflects the breakdown of FY 1972 and FY 1973 obligation activity as well as approved projects pending obligation. If we remain under the current continuing resolution limitation thru FY 1973 it will not be possible to obligate all approved projects, and at least $1,002,800 for Project Piaui will be carried into FY 1974 for obligation.

Following the summary by project there is a sheet summarizing our activity by country.

Also attached are summary descriptions of the projects obligated thru February in FY 1973.

INTER-AMERICAN FOUNDATION
PROGRAM FUNDS UTILIZATION
AS OF FEBRUARY 28, 1973

PROJECT/COUNTRY	AMOUNT OBLIGATED	TOTAL DISBURSEMENTS TO DATE	BALANCE
FY 1972 OBLIGATED PROJECTS			
COOPESCHI - Peru	68,142	68,142	-0-
MOC - Brazil	7,455	7,455	-0-
COPAC - Colombia	23,300	7,050	16,250
CARITAS - Honduras	124,850	79,393	45,457
FANAL - Colombia	424,400	75,941	348,459
OROBO - Brazil	5,460	5,460	-0-
FASE I - Brazil	50,650	18,900	31,750
FASE II - Brazil	15,500	7,000	8,500
ANDE - Panama	6,800	6,300	500
PICITEC - Colombia	135,800	20,000	115,800
ACAO - Brazil	39,500	38,500	1,000
PROVIVIENDA MINIMA - El Salvador	625,800	175,000	450,800
FDD - Dominican Republic	471,000	128,759	342,241
CHRIST CHURCH COLLEGE - Trinidad	9,500	9,500	-0-
UNICA - Area Wide	9,700	9,700	-0-
FMD - Mexico	500,000	251,329	248,671
IICA - Area Wide	10,000	10,000	-0-
AeC - Colombia	71,000	25,000	46,000
CEAS - Ecuador	71,882	16,802	55,080
PUC - Brazil	176,500	34,000	142,500
FY 1972 OBLIGATIONS SUB-TOTAL	2,847,239	994,231*	1,853,008
FY 1973 OBLIGATED PROJECTS			
INTERVICO - Colombia	62,000	3,000	59,000
CES - Venezuela	61,700	30,000	31,700
FIDENE - Brazil	25,300	8,500	16,800
FUNDES - Colombia	300,000	39,216	260,784
MHS - Jamaica	443,155	27,600	415,555
CASA - Brazil	170,666	134,932	35,734
FUNDE - Nicaragua	502,500	-	502,500
FUNHDESA - Honduras	524,113	126,703	397,410
CWS/SCH - Haiti	5,000	5,000	-0-
EL QUETZAL - Guatemala	66,775	40,053	26,722
EL CENTAVO - Area Wide	10,000	10,000	-0-
ACAO (EVALUATION) - Brazil	11,730	3,750	7,980
DRC - Guyana	70,400	20,500	49,900
PIAUI (ACTION PLAN) - Brazil	6,917	6,917	-0-
PIAUI - Brazil	501,200	356,700	144,500
CEPIM - Brazil	13,300	5,600	7,700
CEAS II - Brazil	8,540	8,540	-0-
AeC (EVALUATION) - Colombia	4,100	-	4,100
FUNDE II - Nicaragua	10,000	10,000	-0-
FUNHDESA II - Honduras	5,000	5,000	-0-
FY 1973 OBLIGATIONS SUB-TOTAL	2,802,396	842,011	1,960,385
TOTAL PROGRAM FUNDS OBLIGATIONS AND EXPENDITURES	5,649,635	1,836,242	3,813,393

APPROVED/NOT YET OBLIGATED	
UNIVERSIDAD - Chile	50,550
DIOCESE - Brazil	60,200
PIAUI - Brazil	1,002,800
MPH - Brazil	29,872
FYA - British Honduras	4,800
FASE II (EVALUATION) - Brazil	11,065
FUNDIFRAN - Brazil	10,000
CEPAS - Panama	73,320
CADEC - Barbados	177,000
REHAB & VO.ED WKSHP - Area Wide	5,000
TOTAL APPROVED/NOT YET OBLIGATED	1,424,607

TOTAL FY 1973 OBLIGATIONS AND APPROVALS TO DATE 4,227,003

*Disbursements include both FY '72 and '73 activity.

3/16/73

INTER-AMERICAN FOUNDATION
APPROVED PROJECTS BY COUNTRY
(AS OF FEBRUARY 28, 1973)

COUNTRY	FY 1972		FY 1973		GRAND TOTAL	
	NO. OF PROJECTS	TOTAL AMOUNT	NO. OF PROJECTS	TOTAL AMOUNT	NO. OF PROJECTS	AMOUNT
Barbados	-	-	1	177,000	1	177,000
Brazil	6	295,065	11	1,851,590	17	2,146,655
British Honduras	-	-	1	4,800	1	4,800
Colombia	4	654,500	3	366,100	7	1,020,600
Chile	-	-	1	50,550	1	50,550
Dominican Republic	1	471,000	-	-	1	471,000
Ecuador	1	71,882	-	-	1	71,882
El Salvador	1	625,800	-	-	1	625,800
Guatemala	-	-	1	66,775	1	66,775
Guyana	-	-	1	70,400	1	70,400
Haiti	-	-	1	5,000	1	5,000
Honduras	1	124,850	2	529,113	3	653,963
Jamaica	-	-	1	443,155	1	443,155
Mexico	1	500,000	-	-	1	500,000
Nicaragua	-	-	2	512,500	2	512,500
Panama	1	6,800	1	73,320	2	80,120
Peru	1	68,142	-	-	1	68,142
Trinidad	1	9,500	-	-	1	9,500
Venezuela	-	-	1	61,700	1	61,700
Area Wide	2	19,700	2	15,000	4	34,700
TOTAL	20	2,847,239	29	4,227,003	49	7,074,242

INTER-AMERICAN FOUNDATION GRANT
COLOMBIA

GRANTEE: Organización Interamericana de Vivienda Cooperativa (INTERVICO)

TYPE OF ORGANIZATION: Non-profit Association of technical service organizations

FUNDING: FOUNDATION: $ 62,000

GRANTEE: $ 10,000

OTHER: $ ----

TOTAL: $ 72,000

DURATION OF GRANT: 12 months

DATE GRANT AGREEMENT SIGNED: 8/8/72

PROJECT DESCRIPTION: INTERVICO, a non-profit association of eight technical service organizations owned by cooperatives or federations of cooperatives in seven countries of Latin America, the Caribbean, and the United States, was established in the spring of 1970 in Colombia. Its objectives are to improve living conditions for low-income families by the promotion and construction of cooperative housing, and the development of integrated services through a two-phased program designed to encourage residents of "squatter settlement and tenements to improve their living conditions. Its program focuses on a concept which makes it possible for a family to change its housing as its improved life-style produces new requirements, without being "locked into" permanent housing. The Foundation grant will assist INTERVICO to carry out a feasibility study, the first phase of its program. The second phase will implement the results of this study which will seek to:

1) Determine an effective means for poor people to develop savings for housing; the social services most essential to upward mobility; and an appropriate investment program to enable the cooperative to achieve self-support;

2) Identify local financial sources interested in participating in implementing the program; and establish criteria for selection of families to join the cooperative;

3) Select two Latin American and/or Caribbean cities which can demonstrate sufficient differences in the composition of their urban poor to test the flexibility of the INTERVICO program.

RATIONALE FOR FUNDING: The concept of housing mobility for marginal families as they achieve social and economic improvement, coordinated with integrated social services, represents a new model for helping solve problems caused by inadequate or non-existent housing, social services, and job counselling. This experimental model could be particularly valuable in providing needed flexibility for the hemisphere's expanding urban populations.

INTER-AMERICAN FOUNDATION GRANT

VENEZUELA

GRANTEE: CENTRO DE ESTUDIOS SOCIALES (CES)

TYPE OF ORGANIZATION: Private, Non-profit

FUNDING: FOUNDATION: $ 61,700
GRANTEE: $160,300
OTHER: $ ---
TOTAL: $222,000

DURATION OF PROJECT : 2 years

DATE GRANT AGREEMENT SIGNED: 7/18/72

PROJECT DESCRIPTION : CES, started in 1970 as an outgrowth of ACCION, works on unemployment problems in Caracas barrios. It operates two centers for Vocational Orientation in separate barrios in which, through "learning by doing," it seeks (1) to prepare the job seekers to secure jobs and cope with the work environment, (2) to interest private companies in the problem and help them adapt their training and work practices to meet the realities of the barrio employment market, and (3) to influence government training and employment activities through feed-back on CES's methodology and experiences.

The Centers carefully select and test job seekers; keep listings of job openings; conduct seminars on basic education (including job skills, how to dress on the job, etc.), and given the lack of telephone and mail services in the barrios, operate a messenger service to advise selected clients of job openings. The Centers provide follow-up services for its placed clients for at least three months after employment.

RATIONALE FOR FOUNDATION FUNDING: The effective placement in productive employment of unskilled, unoriented residents of the mushrooming urban slums constitutes a major problem throughout Latin America. The CES program provides a possible model of how to place barrio dwellers in jobs and how to direct both public and private efforts to devise approaches to meeting this problem. In addition, the CES program presents a fresh and simple system for involving industry and barrio dwellers. The Foundation's contribution would permit CES to continue to test its methodology, to allow it the flexibility to make program changes as evaluation dictates, and to disseminate widely the results of its efforts.

INTER-AMERICAN FOUNDATION GRANT

BRAZIL

GRANTEE: Fundação dd Integração, Desenvolvimento e Educação do Noroeste do Estado (FIDENE)

TYPE OF ORGANIZATION: private, non-profit

FUNDING: FOUNDATION: $ 25,300

GRANTEE: $ 7,500

OTHER: $ —

TOTAL: $ 32,800

DURATION OF GRANT: 18 months

DATE GRANT AGREEMENT SIGNED: 8/15/72

PROJECT DESCRIPTION: FIDENE, a regional development foundation operating in northwestern Rio Grande do Sul state, was established in 1968 through the efforts of a small, private liberal arts college in the town of Ijuí. The concept of a regional development agency was the outgrowth of a highly successful community organization program in the municipality of Ijuí, sponsored by the college over a period of eight years. Inspired by this example, the various other municipalities in the region decided to pool their resources in a joint development effort, the result of which was FIDENE. With education as a vehicle, the foundation strives to achieve regional integration by means of social and economic development.

Employing its indigenous methodology for community organization, which it terms the "Movimento Comunitário de Base," FIDENE will now expand its developmental activities to rural municipalities throughout the region, an area that includes over one million people, approximately 70% of whom engage in agricultural pursuits. Initially, it will submit its methodology to detailed evaluation by means of a controlled experiment in one municipality. With the data from this evaluation it will move into other municipalities until the "grass-roots community organization movement" has spread throughout the region. The Inter-American Foundation grant will finance field aspects of both the experimental program and its evaluation; administrative support will be provided by FIDENE.

RATIONALE FOR FUNDING: The FIDENE pilot project and its evaluation will provide this unique regional development agency with the scientific data needed to perfect its community organization methodology, adapt it to rural areas that are populated largely by marginal farmers, and apply it extensively throughout the northwestern region of Rio Grande do Sul state. The evaluation will provide a basis for comparison of the "Movimento Comunitário de Base" methodology with other community action models, and the tested system will be replicable in similar areas throughout Brazil and Latin America. FIDENE has already demonstrated its competence in linking the academic elite and marginal populations. An analytical study of this process in the experimental project will provide useful information on the processes of social change and will make this aspect of the FIDENE methodology accessible to other groups.

INTER-AMERICAN FOUNDATION GRANT

COLOMBIA

GRANTEE: FUNDACION NACIONAL PARA EL DESARROLLO SOCIAL (FUNDES)

TYPE OF ORGANIZATION: Private, non-profit

FUNDING: FOUNDATION: $300,000

GRANTEE: $300,000

OTHER: $ Local inkind donations to cover all operation expenses (about $10,000 for first year)

TOTAL: $610,000

DURATION OF GRANT: one year

DATE GRANT AGREEMENT SIGNED: 8/9/72

PROJECT DESCRIPTION: FUNDES was founded in Cali in February 1972, by representatives of both the Colombian public and private sectors. Its primary objective is "the social and economic development of marginal groups" through the expansion or establishment of small, labor-intensive business enterprises. It provides credit and technical assistance to these small businesses which do not have access to capital through regular banking channels.

A Foundation grant of $300,000 will match local Colombian donations to FUNDES with which they will create a $600,000 rotating loan fund. This fund will provide the financial support required by FUNDES' program to create employment through loans to marginal labor-intensive enterprise.

FUNDES operates with a small permanent staff which analyzes and recommends projects for financial support. Several public and private organizations are represented on FUNDES' Board of Directors and provide feasibility studies, skill and managerial training, job orientation, market research, and aid in organizing small labor-intensive businesses. This technical assistance is coordinated by the permanent staff, and is furnished at no cost to FUNDES or the project served.

RATIONALE FOR FUNDING: In focusing the resources of several organizations on one serious problem -- the need for jobs among the marginal population -- this model seeks to demonstrate an inexpensive method of job creation through the utilization of existing specialized resources on an as-needed basis. It is anticipated that it should result in the development of small, labor-intensive industries with low capital investment requirements.

INTER-AMERICAN FOUNDATION GRANT
JAMAICA

GRANTEE: Mutual Housing Services, Ltd.

TYPE OF ORGANIZATION: Private, non-profit, technical services

FUNDING: FOUNDATION: $443,155

GRANTEE: $ 72,480

OTHER:

TOTAL: $515,635

DURATION OF GRANT: 2 years

DATE GRANT AGREEMENT SIGNED: 11/13/72

PROJECT DESCRIPTION: Mutual Housing Services, Ltd. (MHS) was initially sponsored and financed by the Jamaican government in 1968 under the guidance of its Cooperative Housing Advisory Committee with assistance from the Foundation for Cooperative Housing (FCH), Washington, D.C. It was established as a private, non-profit, technical service organization whose Board of Directors was selected for their experience in and dedication to the promotion of cooperative communities for low to moderate income groups. Partially funded by fees charged to clients for its services, and previously subsidized by the Ministry of Housing, MHS has recently completed a 159-unit housing cooperative in Kingston and a 90-unit urban renewal project; and has begun a 311-unit project at Montego Bay. MHS services include the complete organization and development of housing cooperatives, as well as project management and cooperative leadership training programs. It is now planning a community development project which includes a 100-unit cooperative housing development aimed at a lower income level than lending institutions have been reaching. This is the first phase of a program to assist the South Clarendon Cooperative Housing Society (SCCHS) to acquire home ownership for its members. SCCHS is a non-profit cooperative society of indigenous rural workers, whose incomes are very low and to whom mortgage credit is not available individually. A grant of $438,155 to MHS will cover development and construction costs of the housing for this demonstration community development project with subsequent creation of a revolving fund for additional projects. The community will be constructed on land purchased by SCCHS members with their savings ($10, 890). Additional social promotion and organizational efforts are being provided by the non-denominational Social Action Center, the Sugar Industry Labor Welfare Board and SCCHS. MHS will manage the construction and sale of the homes to SCCHS members, after which it will sell the mortgages to the Jamaica Mortgage Bank (JMB) which has agreed to cooperate. Moneys retrieved from sale of the mortgages are to be placed in a revolving fund to provide financing for additional cooperative communities. It is anticipated that this demonstration effort will result in the application of additional funds by the local financial community, making it possible to complete more than the approximately one community per 18 months financed by this fund.

RATIONALE: Mutual Housing Services is a unique organization in Jamaica and the Caribbean. This grant strengthens their capability to provide low-cost housing, develop cooperative communities, and train community leaders. The project represents a major effort to demonstrate to the local financial community that housing can be economically provided to lower income groups than those now supported. Moreover, it aims at an area of social development and need that has been listed as a priority by people throughout the Caribbean.

INTER-AMERICAN FOUNDATION GRANT
BRAZIL

GRANTEE: Fundação "Casa do Pequeno Trabalhador"

TYPE OF ORGANIZATION: Private, non-profit

FUNDING: FOUNDATION: $ 170,666

GRANTEE: $ 212,531

OTHER: $

TOTAL: $ 383,197

DURATION OF GRANT: 2 years

DATE GRANT AGREEMENT SIGNED: 8/15/72

PROJECT DESCRIPTION:

The "Casa do Pequeno Trabalhador" is a private, non-profit institution founded by a wealthy philanthropist in 1938 in São Paulo. Historically, it has been dedicated to schooling of and caring for indigent boys lacking a normal home environment. A marginal operation for many years, it now receives approximately 10 percent of its support from the state; the remainder comes from private sources and its own income.

Similar to most organizations of this type, the Casa's efforts in the past have been principally devoted to providing welfare and rudimentary classical education. It is presently in the process of changing from a school-welfare institution partially supported by its students who work as parking-lot attendants, to a work-study center aimed at vocational training, job placement, and financial self-sufficiency.

This program will give the 350 students enrolled in the Casa program the chance to learn a marketable skill and gain experience equivalent to that obtained in unsalaried industrial apprenticeships, while at the same time earning income for both themselves and the school from the sale of products made. The Foundation grant over a period of two years will be used to purchase a part of the machinery and equipment needed for skill training in printing, plastics molding, book binding, and radio and TV repair. Other expenses for the establishing and operating of this expanded training facility will be funded by local resources.

RATIONALE FOR FUNDING: The project will test a model for developing a neglected and unproductive segment of the population into a significant human resource on a partially self-financing basis. Expressed interest on the part of government entities promises a wide application of the lessons learned.

INTER-AMERICAN FOUNDATION GRANT

NICARAGUA

GRANTEE: Fundacion Nicaraguense de Desarrollo (FUNDE)

TYPE OF ORGANIZATION: Private, non-profit, credit

FUNDING: FOUNDATION: $ 502,500

GRANTEE: $ 31,700

OTHER: $ 428,284

TOTAL: $ 962,484

DURATION OF GRANT: 2 years

DATE GRANT AGREEMENT SIGNED: 9-12-72

PROJECT DESCRIPTION: FUNDE, a group of Nicaraguan businessmen, was founded in 1969 as a legally constituted, autonomous organization to provide non-guaranteed financing to organized low-income marginal groups without access to regular credit through normal banking channels. To date FUNDE has made loans totalling $72,000 at 9-12% annual interest for start-up costs and operating capital to small industries (80%), such as fishing and furniture production cooperatives and carpentry associations, and to community groups (20%). Local lending institutions have given $260,000 at 6-7% interest without requiring guarantees. FUNDE is headed by a young dynamic economist who because of his membership in Nicaragua's elite and his dedication to social development, is able to play a unique role as a change agent.

A Foundation grant of $500,000 will enable FUNDE to become self-sufficient in three years. $260,000 will be used to expand its loan portfolio. $240,000 will establish two centers:

(1) Training and Technical Assistance Center; to train community leaders and technicians, conduct evaluation and research and give technical assistance to programs which have received loans.

(2) Marketing Center; to identify local and national markets for FUNDE assisted productive enterprises.

FUNDE will utilize technical advisors and receive support from a wide range of both public and private indigenous and international institutions. It has cultivated working relationships with many disparate agencies in an effort to develop communication and support between social classes.

RATIONALE: A substantial majority of Nicaragua's population does not participate in the political and economic activities of the country and possess little opportunity to influence the decisions and events which affect their lives. Social and economic development of the marginal population is not a government priority. FUNDE's non-paternalistic, multi-faceted program focused on self-help is a unique approach to the political restructuring of the social system in Nicaragua by developing a social conscience among the elites and organization among the poor.

INTER-AMERICAN FOUNDATION GRANT

HONDURAS

GRANTEE: Fundacion Hondurena de Desarrollo (FUNHDESA)

TYPE OF ORGANIZATION: Private, non-profit, credit association

FUNDING: FOUNDATION: $ 524,113

GRANTEE : $

OTHER : $ 600,500

TOTAL : $1,124,613

DURATION OF GRANT: 2 years

DATE GRANT AGREEMENT SIGNED: Sept. 22, 1972

PROJECT DESCRIPTION: FUNHDESA is a non-profit organization founded in 1969 by a grou of Honduran businessmen to provide credit and stimulate low income groups and communities to take initiative in solving their own problems. Its loan portfolio totals approximately $255,000. FUNHDESA administers special funds for Caritas of Honduras and Accion Cultural Popular Hondurena which are being matched by equal credit from commercial banks and have subscribed to OPIC guarantees for a sum of $250,000. FUNHDESA is managed by Fernando Montes, a young energetic and capable Honduran.

The Foundation grant, matched by $600,500 FUNHDESA raised from the Honduran private sector, will assist FUNHDESA to initiate a nation-wide consumer cooperative program to restructure the Honduran rural market system. It proposes to establish four regional cooperatives by organizing approximately 400 existing small consumer stores over a 3-year period, utilizing FUNHDESA credit to cover start-up expenses. Loans would be granted at 8% annual interest for 10 years with a 3-year grace period. Interest earned will be placed in a revolving fund to pay administrative expenses of the program. It is anticipated that the program will become totally self-financing at the end of 3 years. The project will be implemented by two organizations:

1) The Department of Cooperative Services will provide the regional consumer cooperatives with (a) technical assistance; (b) economic feasibility studies; and (c) marketing assistance. Its functions will be carried out by FUNHDESA and Caritas of Honduras.

2) The Regional Consumer Cooperatives under whose auspices the affiliated consumer stores will function will: (a) serve as channels for agricultural, industrial and artesan products from the marginal producer directly to and for the consumer; (b) serve as channels for market information; (c) serve as centers for administrative training for managers of affiliates; and (d) monitor the activities of affiliates and provide them with technical assistance as needed.

RATIONALE FOR FUNDING: FUNHDESA's program of consumer cooperatives is a concept which if successful, could completely restructure rural marketing practices and revolutioniz national purchasing power in Honduras. Its proposed lending program would mark the first time the Honduran banking system will have cooperated in the development of the marginal worker. Therefore, while cooperatives in themselves are not new, this may be the first time for their use as a lever for social and economic change on a national level.

INTER-AMERICAN FOUNDATION GRANT
HAITI

GRANTEE: Service Chrétien d'Haiti (SCH)

TYPE OF ORGANIZATION: Private, non-profit, non-denominational

FUNDING: FOUNDATION: $ 5,000

GRANTEE: $

OTHER: $

TOTAL: $ 5,000

DURATION OF GRANT: one time

DATE GRANT AGREEMENT SIGNED: 11/28/7[illegible]

PROJECT DESCRIPTION: Initially established in 1964, Service Chrétien d'Haiti (SCH) represents Church World Services, a nonprofit, non-denominational agency financed by the National Council of Churches, U.S.A. Its original objectives of dispensing disaster relief and institutional assistance have been broadened to include the development of rural communities. Wishing to avoid paternalism, the SCH focuses its efforts on incorporating the community members with whom it works into the decision-making process and the assuming of responsibility for decisions made. Its community development program is administered and supervised by an indigenous team of nine technicians who have been working through and coordinating their efforts with 12 existing Community Councils representing approximately 30,000 persons in the rural area of Bellevue de la Montagne.

In July 1969, SCH established a revolving fund with $500.00, and began making cash loans to community members through the 12 Bellevue Councils. The fund was ultimately increased to $4,500 by donations from various international sources, but the entire amount had been utilized by May 1972. A $5,000 grant from the Foundation will enable SCH to augment the loan fund in order to assist the Bellevue communities to meet the urgent financial requirements of fall planting for 1972. Loans will be made at 3 percent interest for terms of 6 months to 1 year for the purchase of farm supplies and such projects as private rain-catching reservoirs and pig raising. Interest payments will be returned to the fund and reserved for the Councils to use at their discretion. All loans must be approved by full Council membership vote.

RATIONALE: Throughout Haiti, existing community councils although loosely organized, provide a vehicle for developing grassroots leadership and responsible citizen participation. In Bellevue de la Montagne, this rural endeavor could provide a model for the 90 percent of Haiti's 5 million population who live outside the urban areas. Finally, at this strategic time in Haiti's history, this project will encourage social development by its demonstration of the decision-making process.

INTER-AMERICAN FOUNDATION GRANT

G U A T E M A L A

GRANTEE: La Cooperativa Central de Mercado "El Quetzal" R.L.

TYPE OF ORGANIZATION: Private, non-profit federation of cooperatives

FUNDING: FOUNDATION: $67,975

GRANTEE: $ --

OTHER: $ 7,200

TOTAL: $75,175

DURATION OF GRANT: 1 year

DATE GRANT AGREEMENT SIGNED: 9-6-72

PROJECT DESCRIPTION: La Cooperative Central de Mercadeo "El Quetzal" R.L. was legally founded in 1965 as a cooperative association and comprises 12 agricultural cooperatives with a total membership of approximately 1200. "El Quetzal" provides its members with loans for agricultural supplies, as well as assistance in marketing and cooperative management.

With the help of USAID funds, "El Quetzal" established a cooperative training facility, the "Escuela de Adiestramiento para Cooperativas Agricolas (EACA)," located in the highland town of Chimaltenango. EACA provides educational courses incorporated with motivational training for the members of "El Quetzal," the majority of whom come to EACA with a literacy level of 3rd grade or less. Two-week courses in cooperative concepts, cooperative management, bookkeeping, administration, and record keeping, as well as classes for cooperative officers are taught by EACA's director and teaching staff.

The Foundation grant of $67,975 will cover the expenses of EACA's training program for the first of the four years it anticipates will be required to become self-sufficient. During this year, 11 courses will be held to educate and motivate approximately 330 agricultural leaders and workers. In addition EACA will provide follow-up services to the cooperatives through approximately 51 two- to three-day seminars to be conducted in the communities in which the cooperatives are located.

RATIONALE: EACA is the only educational institution in Guatemala providing cooperative and motivational training to the nation's illiterate and semi-literate highland population. It is anticipated that the techniques used in carrying out the project and the lessons learned from it may serve as models to assist other agricultural cooperatives in Guatemala and similar groups throughout the hemisphere to find new solutions to their problems.

INTER-AMERICAN FOUNDATION GRANT
GUATEMALA

GRANTEE: Fundacion del Centavo

TYPE OF ORGANIZATION: Private, non-profit

FUNDING: FOUNDATION: $10,000

GRANTEE: $ --

OTHER: exact amount not known

TOTAL: $10,000+

DURATION OF GRANT: one time only

DATE GRANT AGREEMENT SIGNED: 8/25/72

PROJECT DESCRIPTION: The Fundacion del Centavo was founded in June 1963 through the efforts of a retired American and about twenty Guatemalan businessmen. Its purpose was to incorporate the marginal rural sector into the socio-economic fabric of the country by providing loans to low income rural groups who had no other access to credit. In 1968, it became an affiliate of the Pan American Development Foundation (PADF), an autonomous organization dedicated to economic and social development, and linked to the Organization of American States by its charter. A total of 19 National Development Foundations are now in operation in Latin America and the Caribbean. All are affiliated with the PADF.

At the annual meeting of the PADF in Washington during the month of May 1972, a representative group from 7 National Development Foundations met to discuss their needs for closer cooperation, exchange of information, and assistance to the smaller Foundations. The group concluded that the best means of achieving their purpose would be to bring together representatives from all of the 19 Foundations in a seminar, with the Fundacion del Centavo as host.

An Inter-American Foundation grant of $10,000 will underwrite part of the expenses for this National Development Foundation Seminar. The directors will discuss important accumulated experiences, and study ways to coordinate efforts and increase communication in an effort to improve and broaden their respective programs.

RATIONALE: The National Development Foundations are indigenous organizations directly and actively engaged in finding solutions to problems of social and economic development unique to their countries The 4-day seminar in Guatemala from October 9-12, 1972 should establish a systematic method for the exchange of information between 21 organizations in 18 countries about their programs and experiences in solving development problems. In addition, it is anticipated that the seminar will result in the formation of a hemisphere-wide federation.

INTER-AMERICAN FOUNDATION GRANT

BRAZIL

GRANTEE: Ação Comunitária do Brasil-Guanabara (ACB/GB)

TYPE OF ORGANIZATION: Non-Profit Corporation

FUNDING: FOUNDATION: $11,730

PROJECT DESCRIPTION:

This grant covers the assessment of the socio-economic results of the first two operational years of the ACB-GB Labor Training Center, partially ($39,500 out of $109,500 total) funded by this Foundation. The study is to measure and record the impact of the Labor Training Center upon the general environment and community life of the inhabitants of the area served by the Center, changes in the individual circumstances of the trainees, and the effectiveness of the Center itself.

RATIONALE FOR FUNDING:

This is a part of the process of learning from and evaluating the effect of a project we are supporting.

INTER-AMERICAN FOUNDATION GRANT

GUYANA

GRANTEE: David Rose Center

TYPE OF ORGANIZATION: Private, non-profit, non-denominational social service organization

FUNDING: FOUNDATION: $70,400

GRANTEE: $10,000

OTHER: $ 9,500

TOTAL: $89,900

DURATION OF GRANT: 2 years

DATE GRANT AGREEMENT SIGNED: 12/6/72

PROJECT DESCRIPTION: The David Rose Center was legally established in 1972 by the Guyana Council of Churches which represents 14 Christian denominations. The purpose of its founders was to redirect church resources from charity to development. The Center, located in Ruimvelt one of lowest income areas of South Georgetown, carries out a broad program of youth development, public health, probation work, family counselling, and social welfare. This program enables the Center to ac as a channel through which the people can make their interests and nee known to other organizations and Government. In addition, it has initiated a pilot self-help/training project utilizing employment-oriente action programs as an instrument to awaken productive community partici pation among the 50,000 people of this area.

The pilot project is devoted to developing skills and talents, an to assisting the organization of home industries to produce income and employment where none presently exists. It gives 12-week courses in carpentry, masonry, plumbing, welding and candy-making throughout the year to a total of approximately 500 persons. Students completing courses are encouraged to set up home workshops which will be organized into cooperatives; those unable to work at home use Center facilities. Through retaining 20 percent of the sale of all products produced at, or marketed through the efforts of the Center, it is anticipated that the project will become self-sufficient in two years. A Business Advisory Board composed of local businessmen is committed to provide assistance in marketing, technical feasibility, and job placement.

The Foundation grant will: (1) supplement funds committed by local donors for new building facilities for training workshops and a marketing center; and (2) provide operating costs for 2 years. It is planned that an evaluation be integrated with the project from its inception to measure resulting attitudinal changes.

RATIONALE: The Center is an urban grassroots mechanism which stimulates community action and assists people to solve their own problems. It serves as a channel by which the community can make its needs and interests known, and through which needed services can be provided. The pilot project combines community participation, skill training and labor intensive employment and is aimed at strengthening grassroots channels for communication. It also attacks unemployment, one of Guyana's major problems. Through careful evaluation, this project could provide a prototype adaptable to similar problems in other areas of Guyana and elsewhere in the Caribbean.

INTER-AMERICAN FOUNDATION GRANT

BRAZIL

GRANTEE: Fundação Projeto Piauí

TYPE OF ORGANIZATION: Autonomous Governmental

FUNDING: FOUNDATION: $6,917

GRANTEE : -0-

OTHER : -0-

TOTAL : $6,917

DURATION: 1 month

DESCRIPTION:

The Inter-American Foundation provided funds for the Fundação Projeto Piauí to prepare detailed PERT type work plans for the conduct of Projeto Piauí. These funds were provided after we had decided we wanted to take part in the support of Projeto Piauí.

RATIONALE FOR FUNDING:

The final determination of the level of Inter-American Foundation funding was partly contingent upon the relationship of several sub-projects to the total. Therefore, it was appropriate to separately fund some of the detailed planning work required for the project prior to determining the substantive level of involvement. We subsequently approved a $1,504,000 level of support for Projeto Piauí.

INTER-AMERICAN FOUNDATION GRANT

BRAZIL

GRANTEE: Fundação Projeto Piauí

TYPE OF ORGANIZATION: autonomous, governmental

FUNDING: FOUNDATION: $ 1,504,000

GRANTEE: $

OTHER: $ 1,500,000

TOTAL: $ 3,004,000

DURATION OF GRANT: 18 months

DATE GRANT AGREEMENT SIGNED: 1/12/73

PROJECT DESCRIPTION:

SUMMARY

During an 18-month period, the Fundação Projeto Piauí (FPP) will test its development approach in six regions of Piauí. The project aims at changing the state's traditional society to a system of less-paternalistic structures, fewer hierarchical divisions, greater distribution of wealth and power, higher incomes for the masses, and a greater degree of self-determination on the part of the population.

450,000 people, 25% of the state's population, are being involved in this phase of the program. People at the grassroots level will be motivated to organize, identify problems, and act to solve them. The FPP will encourage upper-class people to accept, support, and participate in the community-initiated work.

OBJECTIVES

The overall objectives of the project are:

-- to provide for greater expression, choice, and influence of the people in the decisions that affect their lives;

-- to stimulate communication among all social groups and encourage their joint involvement in a change process formulated and directed by the people;

-- to raise the standard of living, particularly of the lowest income groups;

-- to channel public resources and private investment to respond to the needs identified by grassroots groups.

METHOD OF OPERATION

Community work. The FPP will work in six regions of the state to form community groups. The staff begins by doing a survey of a neighborhood in terms of its social structures, including the juridical, economic, religious, educational, and other systems. People are brought together to identify their problems and possible solutions in each of the social systems.

As suggestions evolve, the staff helps the community to prepare a comprehensive plan for its own development. It is discussed with other communities and with local leaders; together they arrive at a plan for the county. These plans will be aggregated at the regional and finally the state level.

Linkages Among Groups. To reinforce the cooperation and integration of 46 public and private development agencies involved in the area, a Deliberative Council made up of these groups was established. Special training seminars are held for this body and other leaders to convey the philosophy of the Project. FPP coordinates their participation in specific community projects.

Economic Aspects. FPP expects to raise living standards, especially among the poor, through:

-- community self-help projects;

-- the attraction of new investments relevant to community aspirations;

-- introduction of more productive agricultural techniques;

-- projects in rural settlement.

Educational Aspects. FPP plans to coordinate a reform of the school curricula to a practical orientation. The staff will also direct the creation of a TV education program.

Training. FPP will train local voluntary and salaried personnel for community work. They will prepare residents of Piauí to take over the Project, will give courses on development administration and planning, and will hold seminars about the Project, particularly for the existing local power structure.

COST

The Foundation is requested to provide $1.5 million of an estimated $3.0 million budget. The Piauí State Government and the Federal Ministries of Education and Planning will contribute the other $1.5 million. The grant is for 46% of the personnel and operating costs of the FPP for 18 months and for a seed capital fund for community projects.

RATIONALE FOR FUNDING.

The FPP is a singular attempt to induce major comprehensive change in the way society views man and operates in relation to him. The unique community action approach is aimed at all levels of society. The project provides a full laboratory for learning about change in individuals, neighborhood communities, local structures, the statewide system and about methodologies of community organization, social communication and motivation. With several Brazilian states already showing more interest in the project, the prospects for replication as a whole or in part are good within Brazil.

INTER-AMERICAN FOUNDATION GRANT

BRAZIL

GRANTEE: Centro de Protecão a Infância e Maternidade (CEPIM)

TYPE OF ORGANIZATION: private, non-profit

FUNDING: FOUNDATION: $13,300.00

GRANTEE: $12,600.00

OTHER: $

TOTAL: $25,900.00

DURATION OF GRANT: DATE GRANT AGREEMENT SIGNED:

PROJECT DESCRIPTION:

THE ORGANIZATION — Created in 1963, CEPIM is composed of seven women's clubs representing low-income communities on the periphery of São Paulo. It has been devoted primarily to stimulating self-help activities in health and education, training women in marketable handicrafts, and securing better public services. It forms part of a movement of 130 São Paulo community groups receiving technical assistance from the Movimento de Promoção Humana (MPH), a private social action organization.

THE PROJECT — CEPIM intends to involve the men of the community in its work by responding to their highest expressed priority: job training. Courses in masonry, plumbing, electrical wiring, carpentry, and painting will be given. The practical course experience will include the completion of the CEPIM community center. Discussions on community issues and the importance of group work will be part of the courses. The grant will provide for the purchase of supplies and equipment for the courses. Local resources will cover instructors' salaries and educational materials.

RATIONALE FOR FUNDING — The project is a demonstration attempt, of interest to other organizations linked to the MPH, as to how men might become involved in what has been primarily a women's movement. An unusual feature is that the courses will be established and directed by the community group itself rather than by an intermediate organization. It is expected that CEPIM and this project will be included in an evaluation study of MPH activities.

INTER-AMERICAN FOUNDATION GRANT
BRAZIL

GRANTEE: CENTRO DE ESTUDOS E AÇÃO SOCIAL (CEAS)

TYPE OF ORGANIZATION: private, non-profit

FUNDING: FOUNDATION: $ 8,540.00

GRANTEE: $

OTHER: $ 4,250.00

TOTAL: $12,790.00

DATE GRANT AGREEMENT SIGNED: 2/8/73

DURATION OF GRANT: 3 months

PROJECT DESCRIPTION: This grant will assist CEAS to conduct a seminar for 30 operators of social action programs in Northeast Brazil. The objectives of the seminar are:

-- to raise the participants awareness of social change needs and opportunities;

-- to enhance the participants' capabilities for effective action through study and assessment of global trends and specific case studies;

-- to stimulate the coordination, integration and joint planning of activities among organizations.

THE ORGANIZATION

CEAS was founded in the early 1960's by Jesuits concerned with social change. Its membership now includes lay professionals and university students. Its activities focus on applied social science research, dissemination of information on social change, training of social action operators, and the promotion of action projects.

CEAS's primary concern is to provide a serious and operational interchange of ideas and experiences among social scientists and practicioners. This is done through seminars, studies, and through the publication of Cadernos do CEAS a periodical on current social issues, thinking and activities.

RATIONALE FOR FUNDING

As a pivotal organization in training, learning and dissemination of information about social change in Northeast Brazil, CEAS is in itself worthy of support. The project facilitates CEAS attempts to integrate social development efforts among diverse groups in the region. In raising social development issues and in assessing program experiences, the seminar will be a significant learning experience.

INTER-AMERICAN FOUNDATION GRANT

COLOMBIA

GRANTEE: Accion en Colombia (AeC)

TYPE OF ORGANIZATION: Non-Profit Corporation

FUNDING: FOUNDATION: $4,100

DESCRIPTION:

This grant is to assist AeC in preparing a design for the evaluation of the socio-economic results of a small industries project. The project is being partially funded ($71,000 out of an estimated $90,000 cost) under a Foundation grant obligated in FY 1972.

RATIONALE FOR FUNDING:

This cost covers the planning phase in the process of assessing and evaluating the impact of the project we have funded.

INTER-AMERICAN FOUNDATION GRANT
NICARAGUA

GRANTEE: FUNDACION NICARAGUENSE DE DESARROLLO (FUNDE)

TYPE OF ORGANIZATION: Private, non-profit, credit

FUNDING: FOUNDATION: $ 10,000

GRANTEE:

OTHER:

TOTAL: $ 10,000

DURATION OF GRANT: 3 months

DATE GRANT AGREEMENT SIGNED: 1/4/73

PROJECT DESCRIPTION: This grant will permit the Fundación Nicaraguense de Desarrollo (FUNDE) to support and assist a recently organized private sector committee in Managua. This committee, called Organización Coordinadora de las Institutiones Privadas (OCIP), is composed of FUNDE, CARITAS/Nicaragua and private Nicaraguan individuals. The assistance provided by FUNDE will strengthen OCIP and facilitate its efforts to develop a coordinated private sector rehabilitation/development program for marginal groups left destitute by the 1972 earthquake. A complementary $5,000 grant was made to the Fundación Hondureña de Desarrollo, Honduras, to provide direct technical assistance in the development of this program.

THE ORGANIZATION: FUNDE is a group of Nicaraguan businessmen, founded in 1969 as a legally constituted, autonomous organization to provide non-guaranteed financing to organized low-income marginal groups without access to regular credit through normal banking channels.

RATIONALE FOR FUNDING: As a result of the 1972 earthquake disaster, funds from other sources were not available to support the organizational costs of OCIP. The circumstances provide an excellent opportunity to support FUNDE in its efforts to strengthen OCIP, a highly capable, indigenous non-profit Nicaraguan private sector organization working directly on a people to people basis.

INTER-AMERICAN FOUNDATION GRANT
HONDURAS

GRANTEE: FUNDACION HONDUREÑA DE DESARROLLO (FUNHDESA)

TYPE OF ORGANIZATION: Private, non-profit

FUNDING: FOUNDATION: $ 5,000

GRANTEE:

OTHER:

TOTAL: $ 5,000

DURATION OF GRANT: 3 months

DATE GRANT AGREEMENT SIGNED: 1/4/73

PROJECT DESCRIPTION: This grant will permit the Honduran Development Foundation to provide technical assistance to a recently organized private sector committee in Managua. This committee, called COVO, is composed of CARITAS/Nicaragua, the Nicaraguan Development Foundation (FUNDE) and private individuals. FUNHDESA will assist COVO in organizing a more broadly based private sector coordinating council and facilitate COVO's efforts to develop programs and re-structure services for marginal groups left destitute by the 1972 earthquake. A complementary $10,000 grant was provided to FUNDE to assist COVO to implement an immediate operational program.

THE ORGANIZATION: FUNHDESA is a non-profit organization founded in 1969 by Honduran businessmen to provide credit to low income groups. Fernando Montes, the Director of FUNHDESA, and his staff have considerable experience in promoting the coordination of private sector agencies in the field of development.

RATIONALE FOR FUNDING: Funds from other sources are not available to permit FUNHDESA to provide COVO with technical assistance on a timely basis. The circumstance provides an excellent opportunity to develop a coordinated, private sector approach to development problems in Nicaragua.

PROGRAM SUPPORT FUNDS

The attached chart reflects the Foundation's utilization of funds for Program Support purposes.

It provides a current plan for FY 1973 funds utilization slightly different than the President's Budget. The changes are basically a reflection of three factors:

A. The absorption of $26,800 worth of pay raise costs as a result of the 5.14% increase in January, 1973.

B. A reduced utilization, during the first half of the year, of reimbursable details and consultants, and an offsetting increase in the development of direct hire staff.

C. One time costs for building alterations and equipment requiring reprogramming of approximately $40,000 into office equipment (+23,000), building alterations (+12,000) and communications (+5,000) from other categories.

We do not expect any of these changes to have a substantive impact on, or require revision of, our FY 1974 plans at this time, as we plan to absorb the January 1973 pay raise costs within our current request of $1,715,000.

INTER-AMERICAN FOUNDATION
DETAIL OF
PROGRAM SUPPORT COSTS

PROGRAM SUPPORT EXPENSES	30 June '72 Actual	Current FY 1973 Situation: Obligations Thru February	Current FY 1973 Situation: Current Plan	Current FY 1973 Situation: Difference Between Current Plan and President's Budget	President's Budget Submission: FY 1973	President's Budget Submission: FY 1974
I. Staff Salaries and Related Expenses						
A. Permanent Positions	617,313	538,592	899,428	+ 110,171	789,257	930,107
B. Positions Other Than Permanent	17,707	11,531	18,797	- 1,203	20,000	20,000
C. Other Personnel Compensation	2,811	743	2,055	- 2,945	5,000	5,000
D. Special Personal Services Payments	113,676	112,024	122,372	- 72,231	194,603	207,430
E. Personnel Benefits	51,953	45,400	85,680	+ 9,295	76,385	88,296
Sub-Total	803,460	708,290	1,128,332	+ 43,087	1,085,245	1,250,833
II. Foundation Travel						
Sub-Total	89,882	80,066	122,105	- 44,270	166,375	202,500
III. Support Services						
A. Conferences	5,321	6,575	11,575	- 3,425	15,000	15,000
B. Office Furniture and Equipment	25,007	30,573	38,433	+ 23,433	15,000	10,000
C. Maintenance of Equipment	770	1,152	2,352	- 648	3,000	5,000
D. Building Alterations	5,038	14,040	15,073	+ 12,573	2,500	7,500
E. Consumable Supplies	13,325	5,388	15,476	- 1,524	17,000	21,840
F. Resources Library and Publications	4,381	1,751	3,000	- 2,000	5,000	5,000

3/16/73

PROGRAM SUPPORT EXPENSES	30 June '72 Actual	Current FY 1973 Situation: Obligations Thru February	Current FY 1973 Situation: Current Plan	Current FY 1973 Situation: Difference Between Current Plan and President's Budget	President's Budget Submission: FY 1973	President's Budget Submission: FY 1974
III. Support Services						
G. Printing and Reproduction	9,930	8,910	12,792	- 208	13,000	15,000
H. Communications	25,581	20,127	33,674	+ 9,674	24,000	24,000
I. Postage	672	1,563	2,082	+ 882	1,200	1,200
J. Leased and Local Transportation	1,947	1,920	2,401	- 2,279	4,680	6,627
K. Rent and Utilities	96,176	73,502	98,368	+ 368	98,000	98,000
L. Contractual Administrative Services	36,791	22,000	31,500	- 3,500	35,000	35,000
M. Board Expenses	5,375	3,500	7,500	- 2,500	10,000	10,000
N. Representation Expenses	701	1,494	2,137	- 2,863	5,000	7,500
Sub-Total	231,015	192,495	276,363	+ 27,983	248,380	261,667
GRAND TOTAL	1,124,357	980,851	1,526,800	+ 26,800 *	1,500,000	1,715,000

*$26,800 - Transferred from program funds to offset the 5.14% pay raise of January 1973.

PROGRAM SUMMARY

Mr. PASSMAN. Would you like to summarize briefly the purposes of the Inter-American Foundation and its operations?

Mr. DYAL. Yes, Mr. Chairman, I will be pleased to.

This is the beginning of the third year of Foundation operations. Although we were created by an act of Congress as a public corporation in 1969 under the Foreign Assistance Act, we actually began operations in March of 1971, so we are just beginning the third year of operations. Our funding program record in Latin America and the Caribbean actually incorporates only 16 months beginning in November of 1971. We have attempted to be a participant funder, by invitation, in response to indigenous groups and organizations in Latin America and the Caribbean formed as self-help programs primarily designed to increase and more equitably distribute goods, income, and services among people, to allow them to participate through communities in the decisions which affect their lives, and to enhance the communications flow between all the groups who oftentimes in many of the countries are in competition with each other when change occurs.

During this funding period we have approved grants for 49 projects in 19 countries. Generally these are projects conceived by local groups, not by the Foundation, since we are always a participant funder, and they are projects set in motion with local leadership and resources. We never are the total or the sole funder of any project. Our participation is on a one-time basis during a brief period of years, to date a 3-year maximum time.

We do not supply from our Foundation staff technical assistance nor participants within a project itself. There is always local leadership for these particular projects.

PROGRAM OPERATIONS

Mr. PASSMAN. Would you describe just one project?

Mr. DYAL. Yes, sir. Many of the projects we have funded, I think 17 of the 49, relate to job orientation, skill training, or job generation programs among marginal peoples, rural and urban.

Mr. PASSMAN. Some of the normal work is done under the bilateral technical aid program, is it not?

Mr. DYAL. No, sir; it is not because it is at a different level.

Mr. PASSMAN. Describe one project.

Mr. DYAL. One project in particular would be a program in Cali, Colombia, an organization called FUNDE, which is a development foundation headed by a local board of directors. It is concerned with organizing very small businesses out of which can flow job generation for people in the urban sectors of that area.

Mr. PASSMAN. Concerning the contributions the local people make, they are also the recipients of their own contributions as well as ours. Is that a statement of fact?

Mr. DYAL. Our grant, Mr. Chairman, is made to them on the basis for every dollar they raise locally we provide a dollar.

Mr. PASSMAN. That is good, but it doesn't answer my question. Those who contribute at the local level are the recipients not only of our contribution but their own.

Mr. DYAL. The contributions at the local level, Mr. Chairman, are from middle- and upper-class businessmen and others who contribute to the Foundation which has set in motion the project.

Mr. PASSMAN. But the communities are the recipients of their own contributions as well as what we put in, is that correct?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. Why is it so hard to get an answer? You are not ashamed of this outfit, are you?

Mr. DYAL. Not at all, sir. I am very pleased to be a part of it.

AID TO LATIN AMERICA

Mr. PASSMAN. I believe we have over $1 billion a year in different types of aid for Latin America, do we not, including all programs?

Mr. DYAL. It is my understanding somewhere around there.

Mr. PASSMAN. You are in here for your little tidbit of $5 million. Isn't this just another one of these little agencies that was created on the Hill and not downtown, is that correct?

Mr. DYAL. That is correct, it was created by Congress.

Mr. PASSMAN. Everything is created by Congress, but I am talking about the idea for the Inter-American Foundation, was an idea that developed in the Congress, and not by the people downtown. Is that a fair statement?

Mr. DYAL. It was an idea developed within the Congress, that is true.

Mr. PASSMAN. All right, that is the question I asked. Is this related to a Fulbright proposal?

Mr. DYAL. As far as I know, Mr. Chairman, this has no relationship to the Fulbright proposal.

[Discussion off the record.]

Mr. PASSMAN. I yield to Mr. Shriver.

OFFICE OF MANAGEMENT AND BUDGET REVIEW

Mr. SHRIVER. Thank you, Mr. Chairman.

Does the Office of Management and Budget see your request and approve a certain amount?

Mr. DYAL. Yes, sir; they do.

Mr. SHRIVER. What was the amount of limitations on your spending that you requested from the Office of Management and Budget?

Mr. DYAL. For 1974?

Mr. SHRIVER. Yes.

Mr. DYAL. Our request was $22 million.

Mr. SHRIVER. And they cut it then?

Mr. DYAL. To $15 million.

HOST COUNTRY RELATIONS

Mr. SHRIVER. Mr. Dyal, do your projects have the approval of the host governments?

Mr. DYAL. The individual projects, sir, have the approval of host governments via the organization which is the sponsor, the grantee organization.

Mr. SHRIVER. How does that work?

Mr. DYAL. Each organization is responsible to its own host government for its legal position and authority to function and operate, and reportage of any funds which they receive are set in motion under the laws of each country, which vary, of course, among the 20-plus countries.

Mr. SHRIVER. And the local organization then gets the approval of the local government or the State government?

Mr. DYAL. Where that is required; yes, sir.

Mr. SHRIVER. Have any of the governments expressed opposition to projects which you support?

Mr. DYAL. To date there has been no such expression.

MATCHING FUNDING

Mr. SHRIVER. You say on page 3 that a number of your grants are on a one-to-one matching basis, and they are all on a one-shot basis. I notice in your supplemental material that many of your projects are not on a one-to-one basis. In fact, many of them are not matched. Would you provide additional data showing your overall programs in terms of how much you have put up and how much the recipients have put up.

Mr. DYAL. I can supply that for the record, Mr. Congressman.

[The information follows:]

INTER-AMERICAN FOUNDATION

[Analysis of matching and leveraged contributions for approved projects as of Feb. 28, 1973]

	Foundation funds	Grantee and other contributions	Total	Grantee and other contributions as percent of total	Grantee and other contributions as percent of foundation's
Fiscal year 1972 projects	2,847,239	2,435,003	5,282,242	46	86
Fiscal year 1973 projects obligated through February	2,813,461	2,201,314	5,014,775	44	78
Approved projects	1,416,542	1,780,393	3,196,935	56	126
Total	7,077,242	6,416,710	13,493,952	48	91

Mr. SHRIVER. That is a factual statement is it not? They are not all 1 to 1.

Mr. DYAL. They are not all. We attempt generally for some local resources to be involved.

Mr. SHRIVER. Concerning the one-shot basis, the Brazilian program shown in your data is not really a one-shot project, is it?

Mr. DYAL. The project of Piaui?

Mr. SHRIVER. Your pages aren't numbered, but it is at ACB–GB in your material. This is an assessment of a former project funded by the Foundation.

Mr. DYAL. This is an evaluation, Mr. Shriver, of the project.

Mr. SHRIVER. Do you fund a project three or four times, once for planning, once for operation, once for assessment and evaluation?

Mr. DYAL. Generally we don't.

Mr. SHRIVER. Do you at all?

Mr. DYAL. In two instances to help a local group set a project in focus for appropriate presentation, and to follow up evaluation. Generally

evaluations are made via other organizations which can look in a more objective fashion at that particular project.

Mr. SHRIVER. This is all U.S. Government money that you are using.

Mr. DYAL. Yes, sir.

LOCAL RECOGNITION

Mr. SHRIVER. How are these projects recognized at the local level as coming from the United States? What recognition is given, if any?

Mr. DYAL. Considerable local recognition has been given, practically none in the United States, but at the local level the grantee recipient of funds initiates whatever kind of public relation announcement is made of the participation, and I might say overall this has been unusually good, very honest and forthright, and has come from them rather than a public relations announcement from us, which we think is appropriate for our organization.

TYPES OF STAFF

Mr. SHRIVER. One further question and my time will be up under the 5-minute rule. You say that you are using a staff of "generalists." What does that mean?

Mr. DYAL. We have not attempted, Mr. Shriver, to employ a certain number of agronomists, education experts, etc., but rather people who have life and work background in Latin America and can respond to a broad range of projects without being programer specialists in a particular sense. They all have background in Latin America and the Caribbean.

Mr. SHRIVER. The direction I note that the President made, hoping that the Foundation would develop a fresh approach to new and experimental efforts, referred to education and agriculture specifically.

Mr. DYAL. The distinction, Mr. Shriver, is between identifying and programing. We attempt to identify where those innovative groups are functioning in problem solving techniques which they themselves organize rather than our deciding that certain projects should be set in motion in Latin America.

Mr. SHRIVER. So the money is more promotional than technical assistance.

Mr. DYAL. It is supportive of technical assistance locally, certainly, and it has germaneness to the project's substance, so in that sense I would not consider it promotional.

Mr. SHRIVER. My time is up. Thank you.

LATIN AMERICA AID PIPELINE

Mr. PASSMAN. I think we should state for the record at this point that presently there is in the pipeline undisbursed funds for Latin America of about $5 billion. Plus, we are providing about $1 billion a year to the same area that you are operating. We are just about to nickel and dime this Nation into bankruptcy. I think we all agree from little acorns big trees grow. When you get these little organizations started there is no way to stop them.

EVALUATION

Mr. LONG. Last year in these hearings I asked about evaluation of projects to be carried out by the Foundation. You replied that evaluations, "will be made in connection with each project which we fund." You describe it as a critical piece of what we call the learning process. How many project evaluations have been completed on projects in which you participate?

Mr. DYAL. No evaluation has been completed at this point. Since the funding began only in the latter part of the calendar year of 1971, most of the projects are still in motion, and consequently no single evaluation has been completed at this point. It will be a year from now before such would be true.

Mr. LONG. So you haven't had a chance to learn anything.

Mr. DYAL. Hopefully we are learning, Dr. Long, in the process, because awareness of what is taking place in these projects, our own staff——

Mr. LONG. When do you think we can get some project evaluations?

Mr. DYAL. I think during this coming calendar year it will be possible to get considerable insight into the funding process because of the number of projects which will have been funded and which will be moving toward the medium term.

Mr. LONG. Could you detail for us the preevaluation, the monitoring, and the postevaluation procedures which you require of the contractors that you hire for evaluation? Have you hired any contractors to do evaluations?

Mr. DYAL. We have done both by contract and by grant. These have been largely institutions or individuals in Latin Amreica, in some instances by contract, some by grant, because of the nature of both the evaluation and the organization.

Mr. LONG. Would you give us the procedures?

Mr. DYAL. Mr. Parker, would you explain this?

Mr. PARKER. The procedures vary depending on the project involved.

Mr. LONG. Do you have benefit/cost calculations, rate-of-return calculations?

Mr. PARKER. We haven't been able to apply either cost/benefit methods, or rate-of-return calculations to very many of our projects.

Mr. LONG. Do you plan to develop them?

Mr. PARKER. We will in some projects. One of the things that is involved basically at the point that we are at in the life of most of our projects is the collection of baseline data on what the situation is in an area where a project is going to be carried out, the working out with either the grantee or the contractor who is going to do the particular evaluation, the methods they are going to use, and the things they are going to look for.

Mr. LONG. These are going to be quantified?

Mr. PARKER. To the extent they can be.

Mr. DYAL. Some can be, some cannot be easily because of the nature of the project. They are not economic alone.

Mr. LONG. Next year, God willing, I will be here and you will be here, and the year after. When can we get an answer to some of these questions that we have been asking since last year?

Mr. DYAL. I think certainly by next year we will have insight into many of these evaluation techniques and approaches.

Mr. LONG. Do you plan to take income distribution, employment effects, into account in your evaluations?

Mr. DYAL. Where it pertains, yes, sir.

MEXICAN DEVELOPMENT FOUNDATION

Mr. LONG. You stated last year, in connection with the Mexican Development Foundation, that it would serve as a model to accelerate the social and economic integration of the lower strata of society. Are you monitoring the progress of this?

Mr. DYAL. Yes, sir. That one particularly is interesting because to date on the leveraging of funds alone, the local foundation in Mexico has raised the total of their first year's participation in a 9-month period, that is approximately $250,000 in local funding. The other fallout from that particular project, where the foundation is working with marginal farmers and small groups who have always been outside credit mechanisms in the country, is seen in that the Ministry of Agriculture in Mexico now has gone to that private foundation to say, "You have one of the few relevant experiences with small farmers in the country we believe can have impact."

Mr. LONG. If I were to take a trip to Mexico, would you be able to take me to specific areas and people?

Mr. DYAL. Yes, sir.

Mr. LONG. So I could talk to people who have gotten something out of this project?

Mr. DYAL. I could take you to at least 12 different regional offices in Mexico.

Mr. LONG. I don't want to go to the regional offices.

Mr. DYAL. These are scattered over the country.

Mr. LONG. I have had my fill of being put in a room and bombarded with statistics. I want to get out to see the projects—see the crops grow.

Mr. DYAL. I can see that. I did it myself some months ago.

Mr. LONG. Can you name me a place?

Mr. DYAL. Celaya.

Mr. LONG. Where is that located?

Mr. DYAL. Celaya is approximately 4 hours from Mexico City. It is in one of the provinces.

Mr. LONG. Is that in the Guadalajara region?

Mr. DYAL. No, I am not sure of the state in which it is located.

Mr. LONG. Is it north or south?

Mr. DYAL. It would be north. These are groups, Mr. Long, for example, of small dairy farmers, one- and two-cow kind of dairy farmers.

Mr. LONG. Are these real Mexicans?

Mr. DYAL. Yes, sir, they are Mexicans.

Mr. LONG. One project I saw when I was there that looked pretty good turned out to be Italian people who had settled in the southern part of Mexico.

Mr. DYAL. These are Mexican compesinos.

Mr. LONG. Do you have any figures at all on how these projects are reaching the lower strata of Mexican society?

Mr. DYAL. I can supply for the record, I think, a fairly detailed monitoring of that particular foundation in the numbers of people

it is reaching, the number of groups, the kind of money and credit which has been released from the private sector, from banks and so forth, which I think would be a very telling story.

AID TO MEXICO

Mr. LONG. You hear two stories on this Mexican thing: one that Mexico is a great success story, the other that there is really not very much achieved at all. I would like to get that settled, whether Mexico is, in fact, benefiting. Of course, we are not supposed to be putting any aid into Mexico, isn't that right?

Mr. DYAL. There is no aid program in Mexico, that is correct.

Mr. LONG. You don't regard this as an aid program?

Mr. DYAL. Not under the traditional aid sense in that this is a grant to a private group rather than to the Government of Mexico. The group has its juridical position before the Government, but it is a private group.

Mr. LONG. I would like to know, and I wish you would put in the record, just how much money is going into Mexico that is of the type you are talking about. You see I am increasingly baffled when I go around the world. I went to Mexico. They don't want aid, they don't take it, and yet now I find you have redefined the meaning of aid in your own mind when you answer the question. It takes a lot of questioning to bring this out. If it is U.S. money, I want to know how much is going into Mexico. Can we get some feeling how much is going in the back door, the side door, from the cellar, the roof, all kinds of ways.

Mr. DYAL. I can supply a very straight answer insofar as ourselves, Mr. Long. We have made one grant so far to one organization in Mexico of up to a half-million dollars, on the basis of their capacity to raise a half-million dollars.

Mr. LONG. What about private?

Mr. DYAL. I have no idea at this point.

Mr. LONG. Don't you think it is important that we coordinate our effort with private foundations?

Mr. DYAL. We do do that locally, Dr. Long, with groups in general areas, and there is no other money relating to that particular foundation that we have supplied money to that I am aware of at this point. In our assessment of the project ours was the only outside participation.

Mr. LONG. When we say Mexicans aren't taking any foreign aid, they are very proud of this and make a big fuss over it. Does that apply to multilateral aid too, multilateral institutions?

Mr. DYAL. I am not certain what multilateral institutions are doing with the Government of Mexico.

Mr. LONG. All the agencies ought to have some feeling of what they are doing in relation to all the others. When I was in Venezuela, a year or so ago, they kept hammering into me, "We are not getting any U.S. aid." Then I found within their own minds they had ruled out all multilateral aid which was running into hundreds of millions.

Mr. DYAL. The distinction here relates to the recipient which is not the Government of Mexico but a private development foundation.

Mr. PASSMAN. Would the gentleman yield for some clarification? The only difference is you have certain aid programs moving directly

to the people, some of them moving through governments. All of this aid, regardless of the nature of it, is supposed to help people down at the grassroots level, isn't that true?

Mr. DYAL. That is the supposition.

Mr. PASSMAN. Then what is the difference what brand of aid they are getting or how it is going in? When you put these disclaimers in, it makes me suspicious of the entire program.

LAND REFORM

Mr. LONG. A GAO audit—fiscal year 1971—of the Inter-American Foundation, then called the Inter-American Social Development Institute, states as one of the objectives of the Foundation "to stimulate * * * participation of the people in the development process." Do you agree with this statement?

Mr. DYAL. Yes.

Mr. LONG. Do you agree that for many Latin American countries, land reform is one essential policy "to stimulate participation of the people in the development process?"

Mr. DYAL. Yes.

Mr. LONG. To what degree and in what specific ways has the Foundation encouraged or aided land reform in Latin America?

Mr. DYAL. To date we signed one agreement with the Federacion Agraria Nacional (FANAL)—a campesino union—in Colombia, and we are about to sign an agreement with SERVOL, a service organization in Trinidad and Tobago, to carry out two experiments in agrarian reform. Both of the ventures are unique in each country as they provide alternative models for implementing such reforms.

In Colombia, FANAL has already purchased one hacienda in the department of Huila and is negotiating for others. Approximately 25 union families are settled on the land in Huila working it in an empresa comunitaria; a form of cooperative farming. Though similar cooperative farms have been attempted by the official agrarian reform agency, INCORA, those farms have been noted for their high costs and paternalism. The FANAL effort is an attempt by the local people themselves to organize into a highly productive farm unit without excessive degrees of outside political and official intervention. It is also expected that this experience will strengthen the campesino movement in Colombia, not only by implementing their own agrarian reform, but also to increase democratic rural pressures to stimulate further reform efforts on part of the official entities.

In Trinidad and Tobago our grant will enable a cooperative farm to be formed among east Indian youth. To our knowledge this will be the first attempt at cooperative farming in Trinidad and Tobago. This will be the first farm established by SERVOL, though they already have received other land donations to establish similar farms once their first project is underway. Numerous official agencies have expressed interest in this project—indeed the Government is donating the land—and will be closely watching this experiment to determine its potential to implement Trinidad and Tobago's rural settlement policy in order to increase employment alternatives and agricultural production through changes in the tenure structure.

Mr. PASSMAN. Mr. Coughlin.

FISCAL YEAR 1974 BUDGET REQUEST

Mr. COUGHLIN. Thank you very much, Mr. Chairman.

On page 6 of your testimony you indicate that the budget for next year is $13.2 million program funds and $1.7 million in program support funds. Is the $1.7 million the administrative costs?

Mr. DYAL. All administrative costs, salary, staff, rental, travel, everything.

Mr. COUGHLIN. That is the total administrative costs for the organization.

Mr. DYAL. That is right.

PROGRAM MANAGEMENT

Mr. COUGHLIN. And how do you actually operate when you make these grants? Do you have staff traveling overseas, looking for places to make grants?

Mr. DYAL. We elected not to have resident personnel based overseas, both because of the cost and the whole problem of setting up yet one more far-flung bureaucracy, so we have functioned with a small staff based here, who have language background and capability, and who can travel to the countries in an identifying process for assessment of individual projects and organizations. We function on this basis of relationship without establishing regional offices, since we are not a project operator or programmer ourselves.

Mr. PASSMAN. Would the gentleman yield there?

Mr. COUGHLIN. Yes, sir.

Mr. PASSMAN. I am confused. In other words, you are running this project from Washington. You have no personnel in the countries, and all your personnel are domiciled in Washington.

Mr. DYAL. Yes, sir. It is a foundation of personnel based here, who travel to the countries. We do not operate projects, Mr. Chairman.

Mr. PASSMAN. I know, but you may have zero number of personnel in a country or you may have four or five.

Mr. DYAL. We have no personnel based in any country in Latin America.

Mr. PASSMAN. Then you have a paper organization working out of Washington.

Mr. DYAL. It is a flesh and blood operation as far as it relates in the countries.

Mr. PASSMAN. Do you have consultants out there whom you pay?

Mr. DYAL. We have some consultants. I can supply for the record the exact number. During fiscal year 1973 the total number of consultants utilized is 14.

Mr. PASSMAN. I thank the gentleman for yielding. I certainly don't understand how you can actually run an organization of this type out of Washington unless you are dealing through consultants, and that is another question. Thank you.

STAFFING

Mr. COUGHLIN. Could I just follow up with one question. You have about 50 people full-time staff?

Mr. DYAL. Fifty-five staff members total.

Mr. COUGHLIN. Can you give me any breakdown of what they are, how many are full-time employed?

Mr. DYAL. They are all permanent with the exception of one part-time staff member. About half of these people relate to the project grantees and potential grantees in the various countries on a geographic basis. In other words, a staff member has particular relationship to a country—for example, Colombia—and travels exclusively to Colombia and relates to organizations in that one country. About half the staff provide specific program identification, support, analysis of projects. The other half would be financial, administrative, legal, et cetera, kinds of participation of staff.

Mr. COUGHLIN. Thank you very much, Mr. Chairman.

Mr. PASSMAN. Mr. Roybal.

SPANISH SURNAMED STAFF

Mr. ROYBAL. I would like to follow along the same lines that you have already discussed with regard to personnel. It is my understanding that you have 55 employees. What percentage of those employees are Mexican Americans?

Mr. DYAL. Mr. Parker has the exact figures which we can also supply for you.

Mr. PARKER. Three male Mexican Americans, two female Mexican Americans.

Mr. ROYBAL. That is five all together, making what percentage?

Mr. PARKER. Slightly less than 10 percent—9 percent.

Mr. DYAL. There is a total of 11 who have other country relationships besides Mexican American.

Mr. PARKER. Puerto Rico, Portuguese, Panamanian-American——

Mr. ROYBAL. How many Americans with Spanish surnames do you have?

Mr. PARKER. That would be the 11 Americans with Spanish surnames—[20 percent].

Mr. ROYBAL. All Americans with Spanish surnames. No one was hired from Latin America like most other agencies do?

Mr. DYAL. No, we do not hire from other countries. All of these people are either U.S. citizens or in the process of becoming U.S. citizens.

Mr. PARKER. In addition to that 11, there are 4 people who are resident aliens here, who are residing here and were hired by us.

Mr. ROYBAL. Resident aliens from where?

Mr. PARKER. Chile, Bolivia, Brazil. There are 15 total Spanish surnamed—[27 percent].

Mr. ROYBAL. There are 15 million Spanish surnamed Americans in the United States. Why do you have to get some from foreign countries to work for you? There are plenty to pick from in this country.

Mr. DYAL. Mr. Roybal, this is true, but one of the concerns is about life and work experience and background in Latin America.

Mr. ROYBAL. But you just told the committee you have consultants in Latin America and all your work is done here.

Mr. DYAL. No, I am sorry; that is a misunderstanding.

Mr. ROYBAL. That is what you told the committee.

Mr. DYAL. No; our staff is based here. They are not resident in any of the countries, to avoid the costs of setting up regional offices and overseas residence staff primarily, and also to avoid the tendency to become program operators when you have a staff overseas. They travel.

Mr. ROYBAL. Will you supply for the committee then the amount of money that you spent on travel?

Mr. DYAL. Yes, sir, we can.

[The information follows:]

TRAVEL COSTS—OBLIGATIONS AS OF FEB. 28, 1973

Fiscal year	Staff	Board of directors	Total
1971 actual	$34,226	$8,645	$42,871
1972 actual	89,882	5,375	95,275
1973 estimated total	122,105	7,500	129,605
1974 budget submission	202,500	10,000	212,500

Mr. ROYBAL. It might be better to have someone locally.

Mr. DYAL. We studied that, Mr. Roybal, very carefully. It costs considerably less, much less to have staff traveling than to have them based in the countries, on a cost/benefit basis.

BOARD OF DIRECTORS

Mr. ROYBAL. How or who selected the Board of Directors?

Mr. DYAL. The board was named by the President with advice and consent of the Senate. They have varying terms of 6, 4, and 2 years.

Mr. ROYBAL. Are they supposed to be generalists in the field as your staff is?

Mr. DYAL. In this sense, that the legislation called for four of them to be from the private sector, three to be public officials who relate to the international sector, and that was the basis on which they were chosen.

Mr. ROYBAL. In looking at their biographical sketches I wouldn't classify them as generalists, and I wouldn't think that they would be experts in Latin American affairs.

Mr. DYAL. I don't think any of us attempt to become or be considered experts in Latin American affairs, but the Board generally, with one or two exceptions, has background and relationships in Latin America, so that at least you have that kind of background.

Mr. ROYBAL. There are only two on the Board whom I would classify as having background in Latin America. One happens to have been the ex-Governor of Puerto Rico. The others I do not. However, that is a matter that was not determined by you or this committee.

Mr. DYAL. Yes.

Mr. ROYBAL. The determination was made by someone else, but the one question that keeps coming up in my mind is the wisdom of operating solely from Washington. You stated that studies had been made with regard to this question. Will you supply a summary of those studies?

Mr. DYAL. Yes, we can.

Mr. ROYBAL. So that we can ourselves be convinced that you are correct.

Mr. DYAL. This was a careful judgment made by the Board in the early days that we not establish another regional bureaucracy scattered through Latin America, and increase the costs of administration thereby. For this reason the decision was made to base the staff in the Washington area, and let the traveling relationship flesh out the project opportunities. We considered that to be a difficult problem in the beginning, but it has worked out not to be a problem. We find no difficulty in relating to grantees. In some senses of the word it is even better because we are less interventionists from this angle than we would be if we were locally resident.

[The information follows:]

The posting of U.S. citizens overseas as civil servants involves several financial considerations, in addition to major questions of policy.

If we posted coordinators overseas, we would presumably have as many as 11 of them, some with responsibility for one country, and some with regions of several countries.

The basic costs shown in the following table are alone signfiicantly higher than the average annual travel cost of $4.866 per coordinator that we are now experiencing, without considering any of the other add-ons.

REPRESENTATIVE BASIC COSTS OF POSTING STAFF OVERSEAS [1]

[Cities chosen as random examples only]

	Bogota, Colombia	Guatemala City, Guatemala	Rio de Janeiro, Brazil	Kingston, Jamaica	Quito, Ecuador
Post assignment and return travel and transportation of effects. Cost normally spread over 2-year period, therefore, only 1 way shown	$3,382	$2,577	$3,444	$2,484	$3,339
Annual housing allowances, post differential and post allowances	4,400	7,463	6,300	5,540	5,809
Total, annual cost	7,782	10,040	9,744	8,024	9,148

[1] These do not include: (1) Office expenses, (2) clerical support, (3) medical expenses, (4) in-country travel, (5) consultation travel to Washington.

EMPLOYMENT POLICY

Mr. ROYBAL. Again coming back to personnel, I would like to state that I serve on another committee and I am constantly asking what the employment policy is of the various groups that come before that committee. I am going to do the same thing with you, because I feel that the Spanish speaking of the United States should be used in Latin America. I don't look with favor on any organization that doesn't have a fair percentage of Spanish-speaking people on their staff.

I figure that you may have maybe 10 percent. I think you should increase it in order to bring it up to par. I do not consider someone from Mexico or any country in Latin America, part of this personnel that I am talking about.

Mr. DYAL. If you consider, Mr. Roybal, that 11 out of 55 are Spanish-surname U.S. citizens, then you get a little better figure, I think.

Mr. ROYBAL. If they are Spanish-surnamed citizens than I would agree that that is a fair figure, but I think that includes some from some Latin American country.

Mr. DYAL. Four resident aliens.

Mr. ROYBAL. Who are here on a visitors visa or whatever it happens to be, I don't consider that to be——

Mr. PARKER. These 4 are additive to the 11.

Mr. ROYBAL. The figure of 11 then I think is legitimate. The other four are not. That is all, Mr. Chairman.

Mr. LONG. In other words, when you give a guy a job he becomes a citizen in a hurry, is that right?

Mr. ROYBAL. This is what happens with most of the agencies that come before us. Some of them spend a great amount of money and they brag about the fact that they have Spanish-speaking employees, but an investigation could reveal that they are all from Latin America. We have 15 million right here in the United States and I think we ought to protect them first.

RETURN OF CONGRESSMAN CONTE

Mr. PASSMAN. Thank you, Mr. Roybal. I would like to take this opportunity to welcome back our very able member, Silvio Conte, who was a member of this committee for many, many long years and made a great contribution along the way. We are glad to have you back, Silvio. I believe the organization that we are examining on at this time may be something new since you were on the committee. That is the Inter-American Foundation. I would like to yield to you now for any questions you have.

Mr. CONTE. I have no questions, Mr. Chairman. It is a new organization. I was just reading these materials over. I will have to do a little more homework, but I want you to know how good it is to be back home. I was here for 12 years and left for 2 years. I am glad that I had the opportunity to come back. I know we will work together to try to bring this program into some semblance of good sense.

Mr. PASSMAN. We are glad to have you back. Mr. Bevill.

BENEFITS TO AMERICAN TAXPAYER

Mr. BEVILL. Thank you, Mr. Chairman. Mr. Dyal, what are the benefits that the American taxpayers are to derive from this Foundation's efforts and expenditure of the American taxpayer's money?

Mr. DYAL. I think for a small amount of money, Mr. Bevill, there is the opportunity of participating in projects conceived by people in other countries in which they themselves have interest and in which they place motivation, resources, and leadership, and for which they are ultimately responsible. For a small amount of money it is my hope, and it is certainly the desire and the mandate of the Foundation, both from its legislation and its whole purpose and approach, to try to leverage that kind of money at the local level in the various countries for efforts designed to solve their own problems as they see them. This is a very low key kind of approach. Obviously it is not the total answer to foreign assistance nor was it intended to be. It is a very small part, a discrete, limited perspective kind of approach to funding local

efforts to solve their own problems, if I could put in a fairly succinct fashion. That should benefit American taxpayers in terms of what happens to people in other countries as they raise their own standards, increase their own capacity to solve problems and are less problems within those countries politically, socially, and economically.

Many of these efforts we hope are keys to problem solving that will have impact far beyond the little bits of money that we are involving in them. We are being watched in many of the countries by a variety of people who are concerned about the kind of impact that they can have for resolving problems locally.

Mr. BEVILL. Is it your judgment that it is better to give these countries money than for the Inter-American Bank, which consists of 25 nations, to loan them money, make them loans on projects so that they can help themselves?

Mr. DYAL. My concern, Mr. Bevill, would be that there be responses at a variety of levels. What the Inter-American Development Bank does at one level may or may not be related to another level to microprojects. Most foreign assistance is done on the basis of macroresponses, very large responses, very large sector loans or grants. We are talking about smaller scale ones geared to the capacity of local people both to absorb, to utilize, to profit from, and to grow from that kind of funding approach at another level, a grassroots level, if you please.

Mr. BEVILL. I believe you have made 49 loans or 49 grants.

Mr. DYAL. Yes, sir; grants.

Mr. BEVILL. And you have set out here six or eight of them?

Mr. DYAL. All of those funded or obligated during 1973 you have a brief project description.

Mr. BEVILL. Taking the first one there, Colombia, the Foundation I gather gave $62,000, and the grantee $10,000. Am I interpreting that correctly?

Mr. DYAL. That is right.

MATCHING FORMULAS

Mr. BEVILL. So actually the matching basis, you use different formulas on different projects.

Mr. DYAL. It is very much on a formula per project. In this particular instance, Mr. Bevill, this is a first phase of a low-cost housing approach where the impact money comes in second and third phases from Inter-American Development Bank and local governments, and in which we would have no involvement at all. This is an attempt to problem solve concerning low-cost housing.

Mr. BEVILL. You do know that the Inter-American Bank has many housing projects all over South America.

Mr. DYAL. Yes, sir; I am aware of that.

Mr. BEVILL. They have financed housing projects all over South America. What is different about this housing project and the ones at the Inter-American Bank? What I am getting at, do we have agencies overlapping here?

Mr. DYAL. There is a great deal of overlapping at times. The hope of this one would be as a key to urban housing, which involves skill

training, involves the capacity of the people as they move through a transitional process to have credit, technical assistance, and so forth, rather than simply providing a house. It is to provide a new kind of approach to life, as they move from squatters housing into more permanent housing. The model of this is a first phase of a process for impact funding rather than simply providing a place to live, alone. I am sure there are other schemes and models extant in Latin America.

BRAZIL

Mr. BEVILL. Brazil I believe has probably received more grants than any other country.

Mr. DYAL. Yes; to date that is true.

Mr. BEVILL. Isn't Brazil really the most developed country in South America?

Mr. DYAL. No; that is questionable. It would be difficult to say what would be the most developed. The south of Brazil is far more developed than the north of Brazil. Most of the grants that we have made go to the north and northeast of Brazil, where underdevelopment is a way of life. All of these grants, also, Mr. Bevill, are to private and semi-autonomous groups once again.

Mr. BEVILL. Thank you, Mr. Chairman.

COST OF FOREIGN AID

Mr. PASSMAN. Thank you, Mr. Bevill. Let's make it abundantly clear that there is no intent to ever involve personalities in these examinations, but you are actually looking at a frightened Member of Congress. Some nights I actually don't sleep 3 hours, because I find myself unable to get through to some of the witnesses, and to get through to the American taxpayers just what are doing to them.

Let's take a moment and analyze just what kind of a mess we are in because of this foreign aid program. Do you realize that since we started this program, after the end of World War II, that we have now spent about $250 billion on foreign aid and assistance?

I think you agree with me we had to borrow this money, didn't we?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. And we have to pay 6 percent on an average to borrow this money to give away. We find now that because of our extravagance and insistence on continually spending money we don't have, for things we don't need, trying to be everything, to everybody, everywhere on borrowed money, that foreign governments and foreign nationals have accumulated $80 billion excess U.S. dollars. In other words, these foreign nations and governments have over and above their needs to meet their commitments to commerce, $80 billion. Nations are running from our money. Individuals are running from our money. They laugh at us for not having the ability or the determination to get our fiscal house in order.

You pick up a paper and you see where tourists are having to discount American dollars to get hotels to accept them and you see in the paper where people who hold dollars, even Americans, are exchanging them for some other currency. You do see that in the paper, don't you? Do you agree with me?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. So wouldn't you think that it is actually time to try to get our house in order? When Mr. Truman was in the White House, we had a public debt of $159 billion. We have been going through one of the most prosperous periods in the history of America, but we have spent all the revenue that we could possibly extract out of the economy plus we have run that public debt up to $455 billion. Also, this year, even after the President impounded certain funds, we are still going to drop the curtain in fiscal year 1973 with an administrative budget deficit of $28 billion.

TECHNICAL ASSISTANCE

You said your program was not a technical aid program. Certainly it is a technical aid program. The bilateral program, the multilateral program, and the program under the Department of Agriculture, all of these people do the same things you are doing. They are trying to impart knowledge to this little farmer about how to grow more corn per acre or how to increase beef production. I am not arguing with you. I am trying to see if we can't have a meeting of the minds as to the tremendous duplication we have here. When we look at your sheets here we see one worksheet after the other where you refer to technical assistance.

Mr. DYAL. No, sir, it is not technical assistance.

Mr. PASSMAN. I am reading your own statements. This is in your worksheets. You mention technical assistance in sheet after sheet, and if you deny your own worksheets, it certainly places me in a pretty bad way in trying to run these hearings. Look at some of your own justification sheets. Did I read correctly where you say this technical assistance is coordinated by a permanent staff? What are you teaching these people?

Mr. DYAL. The distinction, Mr. Chairman, to make——

Mr. PASSMAN. Get away from the distinction. What does this consultant do when you send him to Mexico?

Mr. DYAL. The permanent staff you are referring to is of the local organization in the country, not of the Inter-American——

Mr. PASSMAN. What does this consultant do after he arrives there?

Mr. DYAL. Our consultant from our staff does nothing more than identify an organization, its problems and approaches, analyzes what that project is attempting to do.

Mr. PASSMAN. What project?

Mr. DYAL. The project of that particular——

Mr. PASSMAN. Name a project. Do you teach them how to have better crops?

Mr. DYAL. We don't teach them anything.

Mr. PASSMAN. That is the case I am trying to make, that you don't teach them anything. You build up a little bureaucracy here with about 60 people on the staff, and most of your money is spent on payrolls; isn't it?

Mr. DYAL. No. Most of our money is not——

Mr. PASSMAN. What do you spend it for?

Mr. DYAL. The money is spent in a grant to that local organization to do its own job.

Mr. PASSMAN. What is your own payroll?

Mr. DYAL. It is its own local technical assistance——

Mr. PASSMAN. You have not told me what you do at the local level.

Mr. DYAL. The local group has access to, or has within its own organization its own technical assistance. We do not provide from our staff technical assistance. All we do is identify what that project is doing and attempt to analyze whether it is appropriate for the Foundation to make grants to the organization or add to what they are doing locally.

Mr. PASSMAN. Do you understand, yourself, what this is all about?

Mr. DYAL. Yes, sir; I do.

Mr. PASSMAN. I don't.

Mr. LONG. You asked a question and didn't get an answer.

Mr. PASSMAN. You never get answers from these people. I will get an answer before it is over with.

Mr. LONG. How much money do they spend on staff?

Mr. PASSMAN. I will make a record on this.

You people may think you have all the brains on that side, but we are here, elected, to protect the American taxpayer. As far as I am concerned, I am going to try to do my job a little better in the future.

Do you teach these people or does the technical consultant in the organization go out to tell the farmer's how to do their work better, or farm better?

Mr. DYAL. Technicians within that organization——

Mr. PASSMAN. I would assume they have to be technicians. Do they get into farming techniques and how to improve output?

Mr. DYAL. Where that is appropriate to that project.

Mr. PASSMAN. Isn't that the very same thing that the technical aid people are doing under AID?

Mr. DYAL. With a different group of people.

Mr. PASSMAN. I would imagine it would be a different group of people. I didn't think that you had gone so far where you all used the same people. You know this is technical aid. It is pretty hard to defend it and you have been given a difficult assignment. You will find that there are many separate and distinct technical aid groups working in the same area.

While you people are running wild with these expenditures, project after project in America has had funds impounded.

IMPOUNDMENT OF FUNDS

Let me cite one instance. I will move on down to a little town of Vidalia, La., and a project with a benefit-cost ratio of about eight to one. They approached the Economic Development Administration (EDA) who said it looked like a good project, and they immediately approved it. The local people voted a bond issue, sold $310,000 in bonds, deposited the money in the Concordia Bank and Trust Co. and were ready to proceed on this project. But the Office of Management and Budget (OMB) impounded the funds. They are paying interest on the $310,000 while this money is impounded. Yet concerning these foreign aid projects, as far as I know, there is not going to be one thin dime impounded. Not one single project on the face of the Earth will be cut back in the foreign aid program.

It is rather difficult for me to go home and explain that to the people. There is a similar instance in Lake Providence, La., involving

a port which is growing by leaps and bounds. They needed to expand the port. The project was approved, bonds sold, and the proceeds of $320,000 put in the bank. This project would provide employment for 72 people—but no, you have to cancel the whole thing, because we are trying to cut back on expenditures.

Some of you foreign aid employees ought to go home with us sometime, ride around with us and see some of these projects that have been discontinued.

PERSONNEL COSTS

How many people are on your Washington staff?

Mr. DYAL. Fifty-five.

Mr. PASSMAN. What is the annual payroll?

Mr. PARKER. The annual payroll projection for fiscal year 1974——

Mr. PASSMAN. I am talking about 1973. Tell us about the 55 on the payroll here now. What is the 1973 payroll?

Mr. PARKER. $1.1 million for personnel, salaries, and benefits.

Mr. PASSMAN. What is the amount for travel?

Mr. PARKER. $122,000.

Mr. PASSMAN. What is the cost of the consultants?

Mr. PARKER. You mean the consultants on the staff here or the consultants overseas?

Mr. PASSMAN. The consultants that you have hired and send out to these places.

Mr. PARKER. I don't have the total on that. Something less than $30,000 within fiscal year 1973. I can supply that for the record.

[The information follows:]

CONSULTANTS

As of February 28, 1973, 13 consultants had been contracted to assist us in project assessment and other activity overseas, for a total obligation of $32,892. Additional consultants may be used overseas during the remainder of fiscal year 1973. The maximum total fiscal year 1973 obligations for consultants overseas will not exceed $50,000.

We have also used eight U.S. consultants in Washington during fiscal year 1973 and continue to use one on a part-time basis.

Mr. PASSMAN. Who imparts all this knowledge if it is not your consultants? You have consultants within the organization?

Mr. DYAL. Mr. Chairman, this is the importance, I think, that we must somehow understand. We have had difficulty because we get hung up on what is the history and the approach of other organizations. I can fully empathize and sympathize with your concern about overlapping qualities. We are looking basically at the local groups who are problem-solving at a very low scale generally.

In their attempts in socioeconomic development, grassroots level, very often there is no technical consultant at all involved in that.

Mr. PASSMAN. That is why we are so confused. There has not been one iota of information yet established this morning in the record where you have done anything. I have talked and you have talked. We have talked about statistics and we have not yet pinned down what has been accomplished. Who imparts this information to the local groups?

Mr. DYAL. That is done by the group itself where it has staff to do so.

FOUNDATION ROLE

Mr. PASSMAN. That is a good answer. If the local people possess that knowledge already, where do you come in?

Mr. DYAL. We are a participant funder, seed funder or gap funder where we make the distinction in carrying out that project.

Mr. PASSMAN. The local people, with the expertise already, come up with a program and say, "Here is what we want to do"?

Mr. DYAL. Exactly.

Mr. PASSMAN. They have the knowledge to do this?

Mr. DYAL. Or access to it.

Mr. PASSMAN. But they come to you for funding?

Mr. DYAL. Or a part of the funding.

Mr. PASSMAN. We have agreed that the donor becomes the subsequent recipient, does he not? These people already possess all the knowledge that they are going to employ to carry out some particular project, but they come to you for part of the funding?

Mr. DYAL. That is right.

Mr. PASSMAN. If this is not the most farfetched thing I ever got into. Let us get into some more of the expense accounts.

What is your representation allowance?

Mr. PARKER. In 1973 the current plan is $2,100.

Mr. PASSMAN. Do you have a list of the total expenditures for 1973? Place that in the record at this point.

Mr. PARKER. Yes, sir.

[The information follows:]

FISCAL YEAR 1973 OBLIGATION AND EXPENDITURE DETAILS CURRENT PLAN

[In thousands of dollars]

	Item	Obligations	Expenditures
I.	Program activity	3,473	3,517
II.	Program support	1,527	1,423
	A. Salaries and benefits	1,078	1,028
	B. Overseas consultants	50	50
	C. Travel	130	111
	D. Representation	2	2
	E. Rent, communications, and utilities	134	116
	F. Supplies, materials, and equipment	74	63
	G. All other	59	53
III.	Total	5,000	4,940

FY 1973 OBLIGATIONS

Mr. PASSMAN. How much are you going to obligate out of the limitatiton of $5 million the committee placed on you last year?

Mr. PARKER. For fiscal year 1973 we plan to obligate the whole $5 million.

Mr. PASSMAN. After you cover all of the expenses of operating your shop, what amount remains?

Mr. PARKER. The figure is just under $3.5 million.

Mr. PASSMAN. I think you said three?

Mr. DYAL. That is approximate.

Mr. PASSMAN. You now say three and a half. Which is it?

Mr. PARKER. Three and a half.

Mr. DYAL. I concur.

Mr. PASSMAN. What are you going to do with the $3.5 million?

Mr. DYAL. You have the record of it, Mr. Chairman, before you in the projects——

Mr. PASSMAN. Never mind that. What are you going to do with the $3.5 million?

Mr. DYAL. Most of that is already obligated.

Mr. PASSMAN. For what?

Mr. DYAL. For projects in Latin America and Caribbean. Those have been submitted.

Mr. PASSMAN. On the basis of loans or grants?

Mr. DYAL. These are grants.

Mr. PASSMAN. Do you have a breakdown of grants made by country?

Mr. DYAL. Yes, sir, we can supply that.

Mr. PASSMAN. We are going to talk about that a little bit. In how many countries do you operate?

Mr. DYAL. We made grants in 19 countries.

LARGE GRANTS

Mr. PASSMAN. What is the largest grant that you made?

Mr. DYAL. The largest grant that has been obligated to date has been half a million dollars, $600,000.

Mr. PASSMAN. In what country?

Mr. DYAL. This was in Brazil and in El Salvador.

Mr. PASSMAN. Did you make it in two or one? I want to know the largest individual grant.

Mr. DYAL. There are two. One is Brazil and one is El Salvador.

Mr. PASSMAN. $600,000 each?

Mr. DYAL. Yes, sir.

PROJECT PIAUI

Mr. PASSMAN. Take the $600,000 grant in Brazil. Specifically what is it for?

Mr. DYAL. It is designed for this fiscal year, first phase of a project to Piaui, the most backward state in the northeast of Brazil.

Mr. PASSMAN. Let's skip the country description. Specifically what would it be spent for?

Mr. DYAL. This is germane to it because it is the most backward state. The project is a grassroots development, regional development approach attempting to pull the bulk of the marginal population of that state into the mainstream through earning capacity, jobs, participation, and community organization life. It is a public and private involvement which involves every sphere and sector of life in the state. The semiautonomous foundation set up in the state would be similar somewhat to our TVA in this country.

Mr. PASSMAN. You are going to pull them all in the mainstream?

Mr. DYAL. It is our hope to make their life a little easier in the process——

Mr. PASSMAN. How are you going to make it easier? We are dealing with mythical accomplishments. Get into some specifics.

Mr. DYAL. The main thing is that we are not going to do anything.

Mr. PASSMAN. Come on. You are a part of it. It is our money and you know when I am referring to it as "we," I am referring to the American taxpayers' dollars. We are putting up the money so that makes it "we."

Mr. DYAL. I agree.

Mr. PASSMAN. Let us go back to some specifics now. Pick one community or one group of people and indicate what is being done for them.

Mr. DYAL. The average per capita income in the state of Piaui is about $40 a year. The artisan-fishermen on the shores of that state range in that some category.

Mr. PASSMAN. Good statistics, but you got away from the question.

Mr. DYAL. Mr. Chairman, because they do not have access either to marketing opportunities to get their fish beyond local consumption, inadequate boats, inadequate understanding of market opportunities, lack of teaching facilities locally even to be able to read and write, no understanding of what public services are available to them, they have not the slightest notion of what the Federal Government or what the state government of Brazil provides them, where they do provide them opportunities and services.

Mr. PASSMAN. Before you told us that they had this knowledge.

Mr. DYAL. Within this particular project there is a technical consultant team of Brazilians providing help and insight on marketing, literacy programs, public service opportunities.

Mr. PASSMAN. See how overlapping these programs become. Let me say to you that you have not put your finger on one concrete accomplishment yet. I am trying to find out where something has been accomplished.

I go out over the world, and the first thing they do in one of these countries is to arrange for you to see the Ambassador. He gives you a luncheon, but if you start looking for worthwhile projects, you might as well look for them in your office in Washington. They are not to be found.

Mr. LONG. Would you yield?

I have had the same experience. In country after country, I asked, "Show me a project that you are proud of, that you think is really something that has done some good."

Mr. DYAL. I would be pleased to go with you.

Mr. LONG. It is always 2 or 3 days away. They always have some argument why they cannot show you. But they can rarely show you anything.

Mr. DYAL. I think there are projects here that could be shown that you would be proud of.

Mr. LONG. I think that you have not answered the chairman's question.

TOTAL AID TO BRAZIL

Mr. PASSMAN. Let us look at Brazil. We have given this country out of all spigots of aid about $2,900 million. That is a lot of money going in through all of these different parts of the aid program. Now you indicate that a $600,000 grant was provided to Brazil and I am just wondering how you are going to be able to show your accomplish-

ments when we have provided about $2,900 million and accomplishments are questionable.

We are just nickeling and diming America to death. We start these little programs and before you know it, they grow out of control.

Let me make this observation to show you how foolish we have been.

THAILAND FUNDING

A lot of nations are actually waxing fat in wealth. Let us look at Thailand. According to their standards, they are enjoying great prosperity. If you go out there, you see a lot of happy people. Our aid program was supposed to have been discontinued 11 years ago but they went back in with an even larger aid program.

When we found this country had built up a foreign exchange surplus of over $1 billion, we met with the leaders and said, "Listen, we are in bad shape in America with an increasing deficit. We have been very kind to you. We are going to keep giving you aid but you have got $1 billion in your foreign exchange account and we want to borrow one-quarter of a billion dollars."

The Thais said, "No, that is our money." They finally compromised and agreed to make America a loan of $100 million. We agreed to pay them 6 percent interest and repay the loan in 4½ years. That $100 million is coming due on July 2.

Isn't that kind of ridiculous to think that we have gotten on this spending spree and we just can't bring it under control? Did you people realize we were going around the world to so-called underdeveloped nations finding favorable foreign exchange balances and borrowing that money? That was under the previous administration and was discontinued under this administration.

ASSISTANCE TO FISHERMEN

Mr. LONG. Would the chairman yield?

Coming back to the gap that you were talking about—the chairman's question, these fishermen can't get their fish to the market because they are illiterate. I suspect a lot of fishermen nevertheless manage to get their fish to the market even though they are illiterate. What is it that you do to remedy all of these deficiencies that keep these fishermen from getting their fish to the market? What is it about your project that closes that gap?

Mr. DYAL. This particular project aims at getting those communities, whether they are fishermen or small farmers, in drought areas of that particular State, aware of the public services which already exist which could provide them help. They form cooperative groups to get those services or find cooperative means for marketing rather than individual approaches.

Literacy programs and the whole gamut of concerns about communities being able to organize and find remedies to problems.

Mr. LONG. You don't do anything to provide the transportation?

Mr. DYAL. We are not providing anything except a participant funding process.

Mr. LONG. You mean this is an educational program?

Mr. DYAL. No, the local foundation has technical assistance built into its local program, Brazilian technical consultants.

Mr. LONG. Do they need the money?

Mr. DYAL. In order to provide technical consultants, to be able to build community groups and organizations; for seed funding, for example, there are revolving loan funds set up as a part of the project.

Mr. LONG. You loan the money to the ordinary fisherman?

Mr. DYAL. It is a revolving loan fund to help them in this process.

Mr. LONG. Loans to the fishermen?

Mr. DYAL. In that process.

Mr. LONG. What does the fisherman do when he gets the money?

Mr. DYAL. He will buy boats, or better boats, or provide access to markets or set up the local organization for educational processes, what have you.

Mr. PASSMAN. Mr. Director, you just said these people were illiterate and backward but earlier you argued that they already had the knowledge and you just had to furnish some money for them to be able to use that knowledge. Didn't we discuss this earlier?

Mr. DYAL. Or access to knowledge.

Mr. PASSMAN. That is right.

You have taken an about-face and say these people are illiterate and poverty stricken. Let me tell you a story too, to show you how we give preferential treatment to many of our friends abroad. Down in the State of Louisiana we raise soybeans and we raise cotton. If we have an excess of cotton, these farmers didn't come to the government for funds. They are just like the people that you talked about that had the knowledge and decided to put it into effect. They would take maybe 100 acres of farmland that they had previously had in cotton, put a levee around it and flood it with about 18 to 26 inches of water. They stocked it with catfish and it is quite a profitable operation. They came to Uncle Sam to give them a little lift. They went before a committee of Congress and said, "Could we get a little money for research so we could broaden the market for the catfish that are being raised?" Many States now do this.

PEACE CORPS

If there was ever an agency in my opinion, other than the Peace Corps that should be abolished, this one here is one of them. Let us look at the Peace Corps. It is another technical aid program if I ever knew one. We have borrowed $1 billion and expended that on the so-called Peace Corps operation. There is only one thing that keeps the Peace Corps in business and that is the name. There is a lot of appeal to the name. Had it been given some other name, the organization would have been terminated 3 or 4 years ago. This is the sad part of it.

Do you know we are paying $60 million interest annually on that billion dollars we borrowed for them to spend?

PUBLIC DEBT

These are the things that few people think about. This may not add anything to the hearings but let me state for the record, we think of this public debt as being about $455 billion. You know what the real public debt is? It is $1,800 billion.

I like to see you frown. It shows you are concerned.

Let me explain it for you. Every man, woman, and child in America owes their Government $8,500 for their part of the public obligation.

either borrowed or by statute. You think of $455 billion as being the public debt. That represents one part of it.

Mr. LONG. Housing guarantees?

Mr. PASSMAN. I am not getting into that. I am getting into direct obligations.

We have 117 statutes on the books. We say we are going to give you this amount of money in subsequent years for some service you previously rendered in which neither the recipient nor the donor created any reserves. It is costing $12 billion a year to take care of our veterans. I voted for these bills but we created no reserves to pay them. You have to project this obligation out 128 years.

You take retired military personnel. Neither the recipient nor the donor created any reserve to pay these benefits. That is running around $5,100 million a year. You have to project that for 132 years before you draw your last check. The Civil War was concluded, I believe, 108 years ago, but we are still mailing out 755 checks a month to widows and children of Civil War veterans. If you take these statutes, purely statutes, where we are just obligated to pay these monthly payments, then you are going to find you have almost $1,800 billion in the total obligations.

Interest on the public debt is now running around $66 million a day. We are still passing statutes.

Mr. LONG. Could I comment on that? I am very interested in that.

Mr. PASSMAN. Since I have been in Congress our extravagance has reduced my savings by 63 percent. As a young businessman I worked awfully hard to build a little reserve for old age. I may not need it because I refuse to get old, but I built a reserve anyway. Those dollars I saved have been depreciated by 63 percent.

At least this type of discussion should cause you people to realize that you can nickel and dime Uncle Sam to death. We start these little programs and there are 4,408 projects going into 101 nations of the world. I don't know whether we actually have the courage, guts, and determination to bring it under control. Maybe my approach is different and that is why I plead with you to understand.

Personally, I confess I am frightened. Before the curtain drops on the examination this year for foreign aid and assistance, all spigots, the Congress will have looked at over $18 billion in requests. I don't believe the President understands this situation. I don't believe a lot of the Cabinet members understand it, but when we put these figures together it is over $18 billion in requests under the different types of programs—good, bad, and indifferent.

I am not criticizing all of them. I just don't know how in the world we will ever get you folks downtown to understand it and get it before the American people.

I yield.

Mr. LONG. Mr. Chairman, you made a very eloquent statement. Why don't we start as a first downpayment on this business of courage and vote to not fund this program? I have the courage not to do it.

Mr. PASSMAN. If that is a motion, maybe our friends will second it.

Mr. LONG. I don't think we need to berate the witness. Simply, when the time comes to mark up, that we cut the program out.

Mr. PASSMAN. I am not quarreling about technical aid. I am not quarreling about helping our friends. The overlapping is causing me

great concern because we do know of instances where your bilateral and multilateral people got into disputes over who was supposed to handle particular projects.

Yesterday we were considering the migration and refugee program and we had a very fine witness who wanted $8,800,000. That is what we were examining on but during the examination we found it necessary to get a recapitulation on all the refugee costs. We found out that the refugee program for fiscal 1971 was $305 million. That is why we were trying to make a case and to put your operation over into the right category, which is technical aid. The work that you hope to accomplish is actually dealing with these technical matters where the bilateral program, the multilateral program and the Agriculture Department's program are doing the same work.

Mr. ROYBAL. Mr. Chairman, I think we have the responsibility as a committee to look into, first of all, your program and then determine whether or not your request is justified. This committee I think can either approve your request or we can reduce it, make it the same as it was last year, or we can discontinue it altogether. Whatever the committee decides to do, I think should be done on a logical basis after close examination. That is what I would like to address myself to.

FOUNDATION BACKGROUND

I was in the discussions that the Committee on Foreign Affairs had when this organization was established. I remember very clearly that at that time the main discussion was regarding the differences that would exist between the proposed organization and the other types of aid that were being made available to Latin America. I remember that one of the differences was that it was not going to be a government-to-government operation. It was also not going to be a social-service organization. It was going to be an operation that was strictly going to operate within a community group, or groups established on a local grassroots community level.

I remember also that the main argument was that there was no other organization that was really supplying dollars for that purpose. There were other organizations, perhaps Peace Corps and others that have already been mentioned, that did provide teachers, technical aid, things of that kind. Here is where the difference came in; that is, that an organization in any country would use self-help methods. I happen to have seen one in Peru. A local campesino group wanted to bring water to their village from the mountains almost 2 miles away. They decided what they wanted to do and enlisted the help of the Peruvian Government. They told them, "We will need a certain amount of money for material. You provide one-half of it and then we will ask the American Government to match it." We will donate the labor.

I went to see that project. I remember quite clearly the amount that was spent in the project, 2,600 American dollars. I remember also seing the success of that project the day it was opened, when the water came into the village. This is what sold me on the idea of this particular program, thinking that this same type of a project was going to be duplicated in various other countries.

If this kind of a project has not been duplicated in Latin American

countries, then I think your agency should be abolished. On the other hand, if you have duplicated similar projects, in different areas all over Latin America, then I think that your project needs at least the careful study of this committee before a determination is made.

Am I describing more or less the real function of your group?

Mr. DYAL. Mr. Roybal, that is exactly the mandate we were given in the legislation and set in motion by the actions of the Board of Directors and what we have attempted to do.

Mr. ROYBAL. Isn't it true that before you go into a particular country that you go there first of all upon request and that you do not move until such time as that local community organization has requested your assistance and after they themselves have already enlisted the help of their own government?

Mr. DYAL. That is true. Or their local community.

Mr. ROYBAL. Isn't it also true that moneys are on a matching basis, that whenever a grant is made, that they, the local community campesinos, either have their money on hand or have been promised that they will get an equal amount of money to that appropriated by your group?

Mr. DYAL. It is not exactly always an equal amount of money because sometimes what they are providing is in-kind services. In other words, professional people who do not receive money in that process.

Mr. ROYBAL. I understand that.

Mr. DYAL. Or volunteer labor.

Mr. ROYBAL. The value dollarwise is the same?

Mr. DYAL. Exactly.

Mr. ROYBAL. Sometimes their government pays for the so-called experts. In the case of Brazil it was an irrigation and water expert that came into the project?

Mr. DYAL. Sometimes they are private technical help and sometimes public technical help.

Mr. ROYBAL. The truth of the matter is these technicians are, first of all, sought out by the local community group?

Mr. DYAL. That is true.

Mr. ROYBAL. Which makes that community group an activist group within the structure of their own society?

Mr. DYAL. That is true, and responsible for carrying through the project.

Mr. ROYBAL. Isn't it also true that it is quite possible that this may be the first joint project which this new group has entered into?

Mr. DYAL. Very true.

Mr. ROYBAL. This could be the beginning, then, of the community's involvement in further development projects that will ultimately be of great benefit to that local community as a whole and then to the further expansion of that group?

Mr. DYAL. Not only that, but also the project activity of some of those community groups is being observed by other community groups. [Replication or adaptation is carried out elsewhere.] That we have seen done, in projects in which we participated in no funding in the second or third kind of effort along the same lines.

Mr. ROYBAL. In view of the fact that there have been some cutbacks in local community projects, and in view of the fact that we are in a financial situation which in my opinion should not warrant a further increase in foreign aid as a whole, what kind of a job could you do if only $5 million were appropriated?

Mr. DYAL. This year we entered into the limitation process with a figure of $11 million. On the basis of that, we attempted to set up a staff and administrative group that would only use between 10 and 15 percent maximum of administrative expenses. The rest could go into grants then. On that basis, on the $5 million continuing resolution figure, our administrative overhead is higher than we expected it to be.

Mr. ROYBAL. You can reduce your administrative expenses and make possible larger grants?

Mr. DYAL. Yes, sir.

Mr. ROYBAL. Does that include the fee or the stipend that is made available to members of the Board of Directors?

Mr. DYAL. They receive no stipend.

Mr. ROYBAL. Do not?

Mr. DYAL. They get a per diem only once a month generally when they——

Mr. ROYBAL. How much per diem?

Mr. DYAL. Up to a maximum of $50.

Mr. ROYBAL. No more than $50 a day?

Mr. DYAL. That is true.

Mr. ROYBAL. It is possible that they may get $150 a month plus traveling expenses?

Mr. DYAL. Not usually, because we meet generally eight or nine times a year for 1 day, 1 evening.

Mr. ROYBAL. There is no saving that can be made there but there are some savings that you have at least started to look at in the event you have to work with a lesser amount?

Mr. DYAL. Very definitely.

Mr. PASSMAN. Let me get back on the record with this.

We have agreed in the beginning that you had to borrow this money. We are having to pay interest on it. We don't know how we will ever pay it back. We have had to cancel many, many projects in this country. I am not going to take the position that there is not some good in all of these projects, but in all probability under your multilateral and bilateral technical aid programs they may have 40 or 50 times the number of personnel involved in the same area you are.

We have in Latin America 3,958 participants, and there are 651 U.S. technicians. They are out doing the same things that you are doing, trying to impart knowledge or trying to teach them how to do these things better. They furnish the commodities which you do not. They go out on the farms and discuss different ways to put down better tube wells, how to have better fences, how to raise bigger chickens, have better eggs, better fish, and more sanitation. We are not going to argue in this case there is not some merit. I don't know of any organization that you couldn't find some merit, but it is a question of duplication.

As far as I am personally concerned, I don't think that you made a good case. If we had a big surplus and we were trying to find some

way to get rid of this money, I would say go ahead and spend it. From little acorns big trees grow. We find in 1974 you project your travel costs to almost double those in 1973. You propose to increase them from $122,000 to $202,000, do you not?

Mr. DYAL. That is with an increased staff and need to relate to more projects.

Mr. PASSMAN. I know that. Certainly you would have more projects if we didn't hold you down.

GUATEMALA CONFERENCE

Let us look at the grant of $10,000 for the Foundation in Guatemala. This is to be used to underwrite expenses of a 4-day seminar in Guatemala, is it not?

Mr. DYAL. That already occurred.

Mr. PASSMAN. That is what you spent the money for?

Mr. DYAL. That is true.

Mr. PASSMAN. Why does the Foundation provide funds to pay for a seminar in Guatemala?

Mr. DYAL. This was a representative group of all of the 14 development foundations in different countries to enable them to interchange ideas on what they are doing.

Mr. PASSMAN. All brought together in Guatemala from 14 countries for a clambake dealing with the intellectuals and not the poor people who are supposed to be beneficiaries?

Mr. DYAL. They were project operators——

Mr. PASSMAN. You didn't bring the poor people. These were the intellectuals, correct?

Mr. DYAL. These were the Foundation officials from those countries.

Mr. PASSMAN. It was the intellectuals and not the poor people?

Mr. DYAL. I consider intellectuals to exist among poor people, too.

PIAUI PLANNING ASSISTANCE

Mr. PASSMAN. You are not going to agree with me because you are a spender, and I am trying to be the saver. Why did the Foundation provide $6,917 for planning work for the project in Brazil?

Mr. DYAL. This was for the Piaui project I mentoined earlier, to help them in a first phase before they had access to larger funding.

Mr. PASSMAN. This was to the government of Brazil?

Mr. DYAL. This was to the Foundation in Piaui.

Mr. PASSMAN. A direct benefit to the government of Brazil?

Mr. DYAL. I hope directly benefiting the people of Piaui. Both public and private participation.

REPRESENTATION ALLOWANCE

Mr. PASSMAN. Do you plan to increase your representation allowance?

Mr. DYAL. I think that is no real increase. As I see it, it is about the same. It utilizes less than what we are allowed.

Mr. PARKER. We utilized much less this year than we had planned for this year. When the budget was submitted——

Mr. PASSMAN. We are looking at the record. You have $2,137 for

fiscal 1973 and you are asking for $7,500 for fiscal year 1974 for representation allowance?

Mr. PARKER. That is a maximum.

Mr. PASSMAN. I would assume it is the maximum. You always say this. I am so suspicious of your operation I don't know whether I will enjoy my lunch. You don't like to give a direct answer. You want to put a question mark in everything. All I asked you to do was verify whether or not I stated the figures correctly. I want more information on this little clambake that you had in Guatemala, bringing in people from 14 countries.

Who paid the expenses of there people?

Mr. DYAL. They paid their own travel expenses, for the most part. We can give you exact figures.

Mr. PASSMAN. Do you have any breakdown?

Mr. DYAL. I think half of the participants paid their own travel expenses.

Mr. PASSMAN. Who paid the expenses of the other half?

Mr. DYAL. We made a grant to make that possible.

Mr. PASSMAN. How did you spend the $10,000? That is a pretty sizable chunk of money. How many people did you bring in?

Mr. DYAL. I can submit it for the record. I don't know the exact number.

Mr. PASSMAN. Your assistant might happen to know.

Mr. PARKER. I will have to look it up.

Mr. PASSMAN. Furnish for the record a breakdown on this $10,000.

Mr. DYAL. Yes, sir.

[The information follows:]

EL CENTAVO CONFERENCE IN GUATEMALA

I. OBJECTIVES AND RESULTS OF SEMINARS

National Development Foundations (NDF) are indigeneous, private, nonprofit organizations actively engaged in designing and implementing programs to solve social and economic problems unique to their countries. There are 21 NDF's located in 18 countries. Many NDF's have devised effective programs for helping solve such problems of the poor as credit, housing, and employment. Because of the lack of communications there has been very little transfer between them of knowledge and experience. This has deprived them of the opportunity to mutually benefit from individual experiences in success and failure.

It was the purpose of this grant to enable the NDF's to establish a systematic method for the exchange of information about problems and solutions. It was also anticipated that the seminar would result in the formation of a hemisphere-wide federation.

The objectives of the seminar were fully accomplished. A federation was created. The board of directors of the federation was appointed. Several NDF's pledged financial support for the federation's activities. Objectives and operational procedures were established and approved. Through the newly formed federation, a system for communications and exchange of information was created. It was decided that the federation would start operating the communications system by exchanging information on programs to provide credit to the poor and methods for tapping local sources of credit funds.

II. SEMINAR EXPENSES

A. Total cost	$13,437.50
Inter-American Foundation	10,000.00
Penny Foundation	3,437.50
B. Inter-American Foundation grant utilization:	
Airfares (20 people from 18 countries)	6,850.00
Per diem, at $25 per day, for 20 people	1,500.00
General expenses: Materials, supplies, communications, secretarial services, reproduction and printing, local taxis, logistical support	1,650.00
Total grant	10,000.00

III. PARTICIPANTS

A total of 29 persons attended the seminar. Out of this group, 26 were either operational directors or other key decisionmaking staff of National Development Foundations. There was one representative from the Pan American Development Foundation and two representatives from the Inter-American Foundation.

Mr. DYAL. One of the concerns in that process is that knowledge is very vertical in Latin America. There is very little interchange between projects, between project groups, and operators. The concern was to see that that occurred.

GRANTS VERSUS LOANS

Mr. PASSMAN. I think that you will understand my position better when I put this in the record.

Do you realize that since we started this recent program in Latin America that our disbursements to Latin America have been over $12 billion? We would hope out of this tremendous expenditure that there could be some major improvement cited, and there may be. My whole complaint is, why do we have to start another small independent organization without a doubt duplicating some of the work that has been done or could be done by the hordes of technical aid people that we have there. You are making loans; aren't you?

Mr. DYAL. Making grants. No loans.

Mr. PASSMAN. Do you have any applications pending for loans?

Mr. DYAL. We do not.

Mr. PASSMAN. Under your authority you could make loans?

Mr. DYAL. We could; yes, sir. The legislation so states.

Mr. PASSMAN. Are you in a position to state to the committee that you will not get into the loan field?

Mr. DYAL. It has been our intent to date not to make loans because of the whole apparatus that is set in motion in the loan process. We prefer to make grants. My intent and understanding at this time, Mr. Chairman, is to stick with grants.

Mr. PASSMAN. Stick with grants. I am glad for your assurance that you don't plan to get into the money-lending business.

FOUNDATION OFFICIALS

Would you tell us how many top officials you have here in Washington? You are the Director?

Mr. DYAL. I am President of the Foundation.

Mr. PASSMAN. What are you?

Mr. PARKER. Executive officer.

Mr. PASSMAN. Mr. Dyal, what is your salary?

Mr. DYAL. Executive 4, which is $38,000.

Mr. PASSMAN. A man of your background and integrity is not overpaid.

Mr. DYAL. Thank you.

ORIGINAL AUTHORIZATION

Mr. PASSMAN. This original proposal was to transfer in $50 million, accomplish your mission and then terminate the program; is that correct?

Mr. DYAL. Then reassess what happened.

Mr. PASSMAN. Under the original plans?

Mr. DYAL. I think the original plan was—it was an understanding this was an experimental approach, a totally new thing in foreign assistance.

Mr. PASSMAN. It stays at this?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. I am not going to go any further.

Mr. DYAL. I will stand on its experimental nature.

Mr. PASSMAN. Mr. Shriver?

Mr. SHRIVER. Thank you.

CHILE PROJECT

You have not approved at the time this material was prepared, February 28, any projects in Chile or Cuba?

Mr. DYAL. We approved one project in Chile for a private university at Valparaiso for artisan fishermen.

Mr. SHRIVER. In Chile?

Mr. DYAL. Chile.

Mr. SHRIVER. What was the project?

Mr. DYAL. The project was to provide for a project in artisan fishermen development at the University of Valparaiso, use of new equipment to increase their catch in the waters.

Mr. SHRIVER. Are any in the planning stage?

Mr. DYAL. That was approved. We have not obligated it as yet. None in the planning stage at this point.

COLOMBIA PROJECT—FUNDES

Mr. SHRIVER. The description of the Colombia project refers to a small labor-intensive business enterprise, but no examples are given. What kinds of businesses are you supporting?

Mr. DYAL. At this point I am not sure that I can give you an exact answer. I would like to study it and supply it for the record.

Mr. SHRIVER. When you do that, tell us more about the rotating loan fund which has been established under that project.

Mr. DYAL. Yes, sir.
[The information follows:]

Fundacion Nacional Para el Desarrollo Social (Fundes) (grants for small business assistance)

Total funding	$610,000
Foundation	380,000
Grantee and others	310,000

As of the end of January 1973, the Foundation disbursements to Fundes totaled $39,219, and Fundes has provided $63,082 worth of assistance to 150 small labor-intensive businesses. This assistance has been in the form of loans, with repayments to be reused for assistance to similar projects. Generally the loans are at 12 percent interest per year for terms of approximately 1 to 3 years.

The type of businesses assisted are described in the following table.

	Number assisted	Amount in United States dollars	Averages values of assistance, United States dollars
I. Production and manufacturing:			
Metal products	40	$19,097	$477
Furniture and household items	22	9,682	440
Arts and crafts	11	3,999	363
Caskets	7	2,269	324
Food products	6	2,224	370
Dental supplies	3	1,135	378
Construction materials	11	5,358	487
Clothing and shoes	32	13,327	416
Insecticides	1	180	180
	133	57,271	430
II. Services and repairs:			
Beauty parlor	1	318	318
Printing and photography	3	1,635	545
Small businesses training	1	363	363
Radio shop	1	454	454
Car upholstery	1	454	454
House repairs	2	1,272	636
Installation of store equipment	1	318	318
	10	4,814	481
III. Retail sales stores:			
Vegetables	1	136	136
Fruit juices	1	90	90
Food	2	181	90
Groceries	1	227	227
Magazine stand	1	136	136
Ice cream	1	227	227
	7	997	142
Total	150	63,082	420

JAMAICA HOUSING PROJECT

Mr. SHRIVER. The Jamaica project seems to demonstrate to the local financial community that housing can be economically provided to lower income groups than those now supported. We have that problem in this country, too. How are you doing that?

Mr. DYAL. That project is still in its first state. It must be about 3 months along, as I recall. It is probably too early to understand whether that is a breakthrough in that particular part of Jamaica. The hope is it will be, because it should trigger other kinds of funds, second and third stages.

EL QUETZAL PROJECT-GUATEMALA

Mr. SHRIVER. You say that you will fund the Guatemala project, El Quetzal, for the first of the 4 years, and anticipate it will be required to become self-sufficient.

Mr. DYAL. Yes, sir.

Mr. SHRIVER. Who will fund the remaining 3 years?

Mr. DYAL. Hopefully they will have by that time the kind of local support, needed and they should not need outside support. If they do, then there is some question about its validity. This is the only training center in the entire country of Guatemala for the Mayan Indian population that make up 85 percent of the country, to train them in the area of cooperative approaches. Since it is the only center, we felt it was important to give it support during this time to see if it could become self-supporting.

CHANGES IN PROGRAM SUPPORT

Mr. SHRIVER. You say that your program support funds will be used differently than you told us last year for 1973. This includes reduced use of reimbursable details and consultants and corresponding increase in the use of direct-hire staff. Have you done that?

Mr. DYAL. Yes, sir. That basically has occurred. I believe this is a correct answer.

Mr. PARKER. Something like four reimbursable details last year and one now.

Mr. SHRIVER. Another change is for building alterations and equipment. Explain that.

Mr. DYAL. This was due to an increase in the staff from 25, when we first were functioning a year and a half ago, and for additional furnishings and equipment.

Mr. SHRIVER. The major part of your program, $1.5 million, is allocated for a grant to the project in Brazil that you mentioned.

Mr. DYAL. That is in a process over a 3-year period. We have only obligated one-third.

Mr. SHRIVER. One-third of the $1.5 million?

Mr. DYAL. Yes, sir.

BRAZIL—COMPARISON WITH AID

Mr. SHRIVER. Since under this project you are participating with the Piaui state government and the Federal Ministries of Education and Planning, what is the difference between this grant and the programs in Brazil of the Agency for International Development?

Mr. DYAL. There are no aspects of AID programs that relate to this particular program, as I understand it. We very carefully counseled with the AID people to be sure that we were not either substitutionary nor competitive in that process. This is not an area they could be involved in.

Their money goes directly to the Federal Government. It does not relate to this kind of project. It would not.

Mr. SHRIVER. Do you think this project is in line with the discussion and colloquy that you had with Mr. Roybal?

Mr. DYAL. I do, in this sense: Even though the project is very large, it is a people-based and oriented project. So instead of touching one

community, you are attempting to touch approximately one-fourth to one-half of the communities of the whole state. These being communities anywhere from 100 to 3,000 or 4,000 people, in very isolated areas.

PROJECT RESULTS—COOPESCHI, PERU

Mr. SHRIVER. You have given us brief descriptions in the material before us of your 1973 obligated projects. Maybe it would be too early to tell, but could you tell us about the results of the earlier projects?

Mr. DYAL. Once again, Mr. Shriver, we can tell you about some of them. For example, the very first project grant we made was to a fishing cooperative in Chimbote, Peru, very similar to the kind of thing Mr. Roybal was speaking about. This was to enable them to build a boat that could be used cooperatively by the small fishermen in Chimbote to get beyond the waters where normally they would fish, where fish now are running. That boat has been completed. We have seen the boat and we have taken a ride on the boat to make sure it actually is a real object, and that project object has been closed out. It has enabled the fishermen in a cooperative effort to increase not only their catch but their access to markets beyond Chimbote.

NICARAGUAN ASSISTANCE

Mr. SHRIVER. On the Nicaraguan project funding, you say the social and economic development of the marginal population is not a Nicaraguan Government priority.

This is a U.S. Government agency funded entirely by taxpayers' money. Why should we get involved in that project?

Mr. DYAL. I think in this particular instance, Mr. Shriver, there is demonstrated a local initiative of the Foundation group with commitment to make both credit and assistance available to small businessmen and access to the banks. The banks generally in Nicaragua, as in many places, have never been historically oriented to small loans. Consequently the opening of lines of credit to make that possible on the basis of their track record of loan repayments is very important. Four or five of these local groups, where credit lines have been inspired with banking groups, have shown loan repayment records during the last few years of 90-plus percent among marginal rural and urban groups. It is a fact that before this time it had never been accepted or understood that the little man would pay back and would bring off such an impressive track record.

The reason we felt it was appropriate to be involved in this one is because, once again, it is a matching process. We trigger dollars only as local dollars are raised. It is a stimulation of local dollars basically. It is leverage, or stimulation of local resources.

It is a teaching process about social conscience and social concerns among middle and upper class on behalf and alongside lower class groups. We felt this particular group has that kind of background, record, and commitment and it was appropriate to be involved with the stimulation of funds thus raised. Our dollar as a taxpayer here becomes a dollar which stimulates other resources in these countries, the kind of thing I think we can all be happy about.

Mr. SHRIVER. Thank you, Mr. Chairman.

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PRIOR YEARS FUNDING

Mr. PASSMAN. The Congress has provided so far $25 million in obligational limitations over the past 3 years, is that correct?

Mr. DYAL. Yes.

Mr. PASSMAN. What amounts have you obligated out of the $25 million?

Mr. DYAL. The total amount, grant and program support?

Mr. PASSMAN. Gentlemen, I am talking about the total amount that you have obligated out of the $25 million.

Mr. PARKER. $8,130,000.

Mr. PASSMAN. So in reality you have obligated actually less than one-third of the amount that the Congress provided under the limitation, is that correct?

Mr. DYAL. That is correct.

Mr. PASSMAN. Now the next question. What is the total amount unexpended? Let's just get one figure, the unexpended amount that you have available.

Mr. PARKER. We have disbursed $4 million.

Mr. PASSMAN. So out of the $25 million available for obligation you have disbursed only $4 million. Mr. Long, I think you have a question.

EXPENDITURE HISTORY

Mr. LONG. Of that $4 million, how much has been for salaries for the whole period?

Mr. PARKER. I would have to go back and get that.

Mr. LONG. You pointed out $1.2 million for 1 year.

Mr. PARKER. Right, but in order to answer your question over the span of years I have to get fiscal 1971 information.

Mr. LONG. For 3 years if you ran at the same rate, that would be $3.6 million out of the $4 million that represented just salaries. The amount that was free above salaries for program of the actual spending is very, very small.

Mr. DYAL. Those figures are very misleading, Dr. Long, because the average project has a 2- or 3-year lifespan, so the total disbursement does not occur in the first moment of obligation.

Mr. PARKER. Over the same 3-year period, sir, the salary cost was very small in the first year. We only obligated $376,000 in total out of the first $10 million limit. Out of the second $10 million limit we obligated for program support which is salaries and other administrative expenses, $1,124,000. Out of the $5 million limit this year, which makes the remainder of the $25 million, we will obligate $1.1 million for salaries out of $1.5 million for program support.

Mr. LONG. On the basis of your own figures you have actually spent $4 million. Now the salary money gets spent. That money goes out.

Mr. PASSMAN. And travel.

Mr. LONG. And travel, so if you add the salary money and the travel money, you come very close to the $4 million.

Mr. PARKER. No; because the $4 million expenditures is over the period 1971, 1972, and 1973.

Mr. LONG. That is what we are talking about.

Mr. PARKER. Over that period we have not been running salaries at a rate of $1.1 million.

Mr. LONG. Of course not, they are somewhat smaller.

Mr. PARKER. Much smaller.

Mr. LONG. But you still would have at least $2 million I would guess for salaries if not close to $3 million out of the $4 million total expenditures.

Mr. PASSMAN. If the gentleman will yield, this is extremely important. You have only expended $4 million out of the $25 million that we provided, is that correct?

Mr. DYAL. We have obligated $4 million.

Mr. PARKER. No; we have obligated $8 million but spent $4 million.

Mr. PASSMAN. Expenditures have been around $4 million.

Mr. DYAL. Yes.

Mr. PASSMAN. Will you cite for the record what that $4 million consists of. No. 1, salaries; No. 2, travel; No. 3, special consultants. Could you give us a breakdown on this?

Mr. LONG. Plus representation.

Mr. PASSMAN. Give us a breakdown.

[The information follows:]

OBLIGATION AND EXPENDITURE DETAILS

[In thousands of dollars]

Item	Fiscal year 1971		Fiscal year 1972		Fiscal year 1973		Fiscal year 1974		Total through fiscal year 1974		End fiscal year 1974 unliquidated obligations
	Obligations	Expenditures	Obligations	Expenditures	Obligations	Expenditures	Obligations	Expenditures	Obligations	Expenditures	
I. Program activity			2,847	345	3,473	3,517	13,285	6,265	19,605	10,127	9,478
II. Program support	376	193	1,125	1,234	1,527	1,423	1,715	1,694	4,743	4,544	199
A. Salaries and benefits	145	107	77	795	1,078	1,028	1,133	1,119	3,133	3,049	84
B. Overseas consultants			27	13	50	50	118	117	195	180	15
C. Travel	51	5	97	118	130	111	213	210	491	444	47
D. Representation			1	1	2	2	7	7	10	10	0
E. Rent, communications, and utilities	20	12	122	127	134	116	122	121	398	376	22
F. Supplies, materials, and equipment	95	18	38	111	74	63	32	31	239	223	16
G. All other	65	51	63	69	59	53	90	89	277	262	15
III. Total	376	193	3,972	1,579	5,000	4,940	15,000	7,959	24,348	14,671	9,677

Mr. LONG. I think, Mr. Chairman, if we don't get a good straightforward answer to this question, then we should call this group back before this committee.

Mr. PASSMAN. I think they will give it to us.

REVIEW OF SUPPORT COSTS

Mr. LONG. I want to get exactly how much of the actual expenditures you have made have gone out in salaries. It looks to me as if at least 50 percent has gone out in salaries of the actual expenditures and possibly 75 percent—and even conceivably more than that. Let's have the figure.

Mr. PASSMAN. If you have only expended $4 million and when you take out what you have spent for salaries, what you have spent for travel, what you have spent for consultants, it leaves very little for any of the projects we have been discussing, so give us a breakdown on that figure.

Mr. DYAL. We will.

Mr. ROYBAL. Let us quickly review the figures again. How much was it for salaries last year?

Mr. PARKER. Salaries for fiscal year 1972?

Mr. ROYBAL. Yes.

Mr. PASSMAN. 1973.

Mr. ROYBAL. Or 1973.

Mr. PARKER. The 1973 figure is the one I gave you previously. It will be for fiscal year 1973, $1,128,000.

Mr. ROYBAL. And how much was your budget?

Mr. PARKER. In total?

Mr. ROYBAL. How much did you have to spend in total?

Mr. PARKER. That is out of a total for program support of $1.5 million, and that is against a total limitation of $5 million on our activity.

Mr. ROYBAL. Then you actually spent on salary $1,125,000. Your full authorization was then $5 million.

Mr. PARKER. Right.

Mr. DYAL. Continuing resolution figure.

Mr. PARKER. $1.5 million level of activity was based on our anticipation of an $11 million level of activity.

Mr. ROYBAL. I understand. Does the $1,125,000 also include travel?

Mr. PARKER. No, sir.

Mr. ROYBAL. In addition then how much was travel?

Mr. PARKER. In addition to that there is $122,000 worth of travel expenses, and there are other expenses bringing us up to the total of $1.5 million program support.

Mr. ROYBAL. All together then for program support was $1.5 million. The rest of the money then was spent on direct program grants.

Mr. PARKER. For the obligation of program grants, yes.

Mr. ROYBAL. What percentage is that $1.5 million of the full amount authorized to be spent?

Mr. PARKER. Almost a third, about 30 percent.

Mr. LONG. That is not relating to my question. My question is what percentage of the amount actually spent is the amount spent on salaries and travel?

Mr. PARKER. Of the amount actually spent in the current fiscal year it would be a higher amount.

Mr. LONG. What is the amount actually spent in this fiscal year of 1973?

Mr. PARKER. To date or for the whole fiscal year?

Mr. LONG. I hope we will get the whole fiscal year.

Mr. ROYBAL. I hope we ask the same question of AID and of these others, because it would only be fair that you get the same amount.

Mr. LONG. I agree with you.

Mr. ROYBAL. From every agency coming before this committee, you will get the same answers proportionately.

Mr. LONG. This is startling.

Mr. PARKER. I only have available expenditure figures in total. I do not have the program support expenditure figures broken down to reflect salaries.

Mr. LONG. I should like the total amount spent by your agency, actually spent for fiscal 1973, assuming you can project the amount which will be spent.

Mr. DYAL. Mr. Long, we can provide this.

Mr. LONG. I would like it now if you can. Come close to it.

Mr. PARKER. Actually we will spend for the total program support, this includes salaries, travel, rent and everything else, actual expenditures, outlays of money regardless of obligations.

Mr. LONG. For this year.

Mr. PARKER. For this year approximately $1.4 million.

Mr. LONG. $1.4 million for everything?

Mr. PARKER. For program support.

Mr. LONG. For everything, but your salaries and your travel come to $1¼ million.

Mr. PARKER. The bulk of it, yes.

Mr. DYAL. That is all we have.

Mr. LONG. So that if after you subtract salaries, it is $1.4 million from $4.9 million. You have $3.5 million which actually goes to programs.

Mr. PASSMAN. If the doctor will yield, this is important. Let's not confuse the record, and none of us are attempting to. You have been in business for 3 years, and the committee has provided $25 million that you could obligate during that time.

Mr. DYAL. Two years, Mr. Chairman.

Mr. PASSMAN. 1971, 1972, and 1973.

Mr. DYAL. The beginning of the third year.

REVIEW OF FUNDING LIMITATIONS

Mr. PASSMAN. We have now provided $10 million in fiscal year 1971, $10 million in fiscal year 1972, and $5 million in fiscal year 1973, is that correct? We have provided $25 million in total, but out of that $25 million you have obligated $8 million, is that correct?

Mr. DYAL. That is true.

Mr. PASSMAN. And out of the $8 million that you have obligated, your expenditures have been $4 million.

Mr. PARKER. Right.

Mr. PASSMAN. We would have to consider consultants as part of your program, is that correct?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. We want to give you the benefit of the doubt. Let's take just the bare expenditures, and list; No. 1, salaries No. 2 travel, No. 3 representation allowance. In addition to that you have to add conferences, office furniture and equipment, maintenance of equipment, building alterations, consumable supplies for offices, and publications, $3,000. Have I read those correctly?

Mr. PARKER. Those are correct, sir.

Mr. PASSMAN. When you add those up, then you would move over and subtract that from your $4 million. Then that would give the net amount you have actually spent on your program, is that correct?

Mr. PARKER. Almost. Those figures are obligation figures. The spend out rate is approximately 90 percent.

Mr. PASSMAN. Gentlemen, when you actually take all of that, subtract that from your $4 million you had very little left for your projects. Will you put it in the record accurately.

Mr. DYAL. Yes, sir.

Mr. LONG. I understand that salary expenses have to go partly to help obligate this money. That is perfectly understandable, but I do think it is tremendously illuminating to show that of the total amount of money actually spent in a particular year, about 30 percent of it actually went for salaries.

Mr. DYAL. Mr. Long, you are still, I think, misreading the situation, because you are reading program support out of a different figure. The $5 million continuing resolution figure for this year, out of that there will be an obligation of what?

Mr. PARKER. $1.5 million for program support.

Mr. DYAL. $1.5 million of administrative expenses out of $5 million, so $3.5 million is project grants.

Mr. PARKER. Which will be obligated, and of the $3.5 million obligation, there will be a good $2.5 million expended during fiscal year 1973.

Mr. LONG. Then you apparently misunderstood my previous statement. I was trying to find out of all your money how much was actually spent in fiscal year 1973, administrative, everything else.

Mr. PARKER. That is a different question.

Mr. LONG. What do you mean that is a different question? That is the question I asked.

Mr. PASSMAN. Dr. Long, I believe the gentlemen answered your questions. You are going to itemize right down to the last penny what you spent the $4 million for, aren't you?

Mr. DYAL. Yes.

Mr. PASSMAN. How could you make it any plainer than that.

Mr. PARKER. The eight and the four are to date figures.

Mr. LONG. But the actual salary payments to date have probably been a very large part of that $4 million actually spent, isn't that correct?

Mr. PASSMAN. Let's have the record speak for itself. These gentlemen are going to put it in the record.

Mr. LONG. They keep fudging.

Mr. DYAL. There is no intention to fudge.

Mr. LONG. I think the record is fudged and I feel you ought to come back and explain exactly everything.

Mr. PASSMAN. Let me take your side. Of course, you are going to have very little left for projects out in the field, but we must take into account that you had to get in business.

Mr. DYAL. Six months.

Mr. PASSMAN. It all had to go to salaries. You had to get organized before you could move.

Mr. DYAL. Thank you, Mr. Chairman. That is true.

Mr. PASSMAN. If you could just put the figures in I will be sympathetic and I am going to move on the basis of facts, you understand. I don't like your organization because I think it is a duplication but nevertheless I want to be fair with you and let the record show what the facts are.

COST ANALYSIS

Mr. ROYBAL. Mr. Chairman, what I would like to have is a cost analysis of your operation from the time it started until the present time. I would also like to have a projected cost analysis based on your request for this year. That would give us all the information that we need. Then we can make an evaluation on that information.

Mr. DYAL. That we can do.

Mr. ROYBAL. It is a very simple sheet that can be prepared and made available to every member of this committee.

Mr. PASSMAN. You should also have the same information I have requested in the aggregate. You should do it by year. It is perfectly obvious that your first year and your second year are not going to look very good so far as projects in the field. Any accomplishment that you can point out would have to come in year 3, and, of course, we are going to take into account that you had to get in business. I think the decision will be made based upon what you did in the third year.

Mr. LONG. This being the third year.

Mr. PASSMAN. This is the third year, with respect to providing the money.

Mr. LONG. It isn't very good on the basis of the third year.

Mr. PASSMAN. When you provide too much money people look for ways to spend it. You have actually obligated, since you have been in business, $8 million out of your $25 million limitation. It looks to me like we should just halt this program for a couple of years to see what you are going to accomplish with the funds provided.

Mr. SHRIVER. I think they should be commended for not moving too fast because they have only been in business a couple of years.

Mr. PASSMAN. I am never going to commend any witness for spending money. I take the other position because they are going to spend it any way. This is a full-time job for you, isn't it?

Mr. DYAL. Yes.

Mr. PASSMAN. I will come to their defense and say if they could have found some way to spend it they would. It would appear to me that possibly you have adequate funds to move along as you say on a supplemental basis and find out where you are going to wind up after 1 more year.

Mr. PARKER. One problem with that, Mr. Chairman, is that the $25

million does not remain available. At the end of this fiscal year when the $5 million limitation——

Mr. PASSMAN. You might also place in the record at this point what your anticipated unobligated balance will be as of June 30 out of the allowance provided. You could do that, could you not?

Mr. DYAL. Yes.

[The information follows:]

The Foundation anticipates the obligation of virtually all of the $5 million of its funds allowed under the fiscal year 1973 continuing resolution limitation.

Of the $50 million of appropriated funds originally transferred to the Foundation, approximately $40,652,000 will then remain available for obligation, subject to limitations established during the fiscal year 1974 appropriations process.

FUNDS REMAINING AVAILABLE

Mr. PASSMAN. How much will you have out of that amount unexpended as of June 30?

Mr. DYAL. Under a $5 million limitation.

Mr. PASSMAN. You had your prior obligations which we must respect.

Mr. DYAL. Those do not remain available under limitation.

Mr. PASSMAN. Not the unobligated, but the obligated part remains available for expenditure. Once you enter into an obligation, you don't write the check that same date. You have obligated funds that are carried over.

Mr. PARKER. But the $10 million in the first 2 years and the $5 million this year are not obligated.

Mr. PASSMAN. What you do not obligate lapses?

Mr. PARKER. Right.

Mr. PASSMAN. I understand that, but you do have accumulated obligations in which expenditures will be made at some subsequent date.

Mr. PARKER. Yes, sir.

Mr. PASSMAN. As long as you give us the amount that is obligated unexpended, then the amount unexpended in an unobligated category, I think it would clear the record.

Mr. PARKER. Those will be the amounts in the project.

Mr. ROYBAL. Just a cost analysis that you make.

Mr. PASSMAN. Mr. Miller.

SIZE OF GRANTS

Mr. MILLER. Mr. Dyal, I notice in your statement you say,

Our purpose is to support on-going local efforts to solve problems without creating further dependence on the Foundation for funds.

You say:

A number of our grants provided that we match $1 for $1 that the grantee raises locally up to a certain amount.

Do you have a statutory limit as to how much you can grant? You mentioned in two cases $600,000.

Mr. DYAL. There is no statutory limit.

Mr. MILLER. Then that certain amount is put in upon the decision of your board or your administration or yourself?

Mr. DYAL. That is right, on the basis of a request made to us.

TYPES OF MATCHING

Mr. MILLER. Is the matching fund that comes from the local people primarily in kind or is it actual money?

Mr. DYAL. The bulk of it would be actual money. It actually is both, but it is very hard to assess in kind. You can guess at dollar amounts, but that is not an easy kind of game to play.

LOCATION OF PROJECTS

Mr. MILLER. Let's go into the 2-year record if we may. In the 16 months since that date of 1971, the Foundation has approved grants totaling $7,074,242 for 49 projects. Then you state you propose 43 projects for the 1974 budget. That is rather a short time for all the project proposals you have, and you state the Foundation has no public relations staff.

We are pleased that the institution received widespread favorable publicity completely unsolicited throughout Latin America.

How do the people find out about your organization?

Mr. DYAL. It is really a network kind of thing that occurs over a time frame through relationships with enough organizations, their relationships with others, the word begins to spread, plus an aggressive attempt on our staff to move out in a country to a variety of organizations, not only in the capital cities, but certainly also in the more removed and isolated areas.

There is also a brokerage of information process from the whole area of both local and international organizations functioning in those countries who are aware of our existence, our purpose, our capacity to respond to local groups, and who point out to them and to us the existence of groups and organizations. So we watch what really amounts to a rather steady assent of both project proposals coming to us as well as awareness of us. I would expect that line to continue as time goes on.

Mr. MILLER. If there are dollars available it seems that those people who are after the dollars will find you because you are responsible for the programs.

It seems there would be no limit as to the amount of proposals that will eventually flow to you as the word continues to get around that you have money that it is possible to be put into their project. As I understand it, when your people go in, there is already a local organization that would like to accomplish this project, whether it may be a water system or a sewer system, but what you do thereafter is really pump money into the project. Is that what I understand?

Mr. DYAL. It would be seed funding to make that project a possibility. It may be an organization that has never attempted that kind of thing before. They have done other things. It may be that they have the capacity to carry the project just so far, which is usually the case with these small groups. They simply don't have the kind of funding or access to funding. This is the difference I think in terms of what we are attempting to do. They do not have access to bank money. They do not have access to international lending funds, because it is a local entity, a community organization generally. Quite often they don't

have access to government funds within their own country. The funding relationship for us would be a gap funding as I interpret it to enable that project to take place which ordinarily could not occur.

BRAZILIAN ORGANIZATIONS

Mr. MILLER. Take Brazil as an example. Do they not have some organization within their country that is sponsored locally that would do this same thing?

Mr. DYAL. Not necessarily. There are many organizations available for a variety of concerns. That is the reason we don't do things like roads, dams, bridges, and large-scale housing, because funds are available by both local and international organizations. The kind of involvement we have is more job generation, skill training at the marginal level, small scale agrarian credit programs for groups without access to credit moneys. It is a marginal gap kind of project approach also.

Mr. MILLER. We have a number of States in the Appalachia area, and they have an Appalachia Regional Commission. They furnish funds for many projects. It reminds me a little of the Foundation you are talking about. They are able to put funds on top of other Federal funds or local funds, in order to accomplish a project. How does your Foundation compare to them? Do you do practically the same thing that Appalachia Regional Commission would do in the Appalachia States.

Mr. DYAL. I don't know that I can answer that appropriately not knowing the exact content of many of those projects and programs, but I would think it would be a similar thing. We provide money aimed at priming the pump to make other moneys available, or add to local moneys to enable them to do a project.

Mr. MILLER. You have a project listed here for Brazil, and this particular project is composed of seven women's clubs representing low-income communities for teaching or planning. They will be taught and trained to produce marketable handicraft products. Then the other part of the project is that you intend to involve the men in the community in job training with courses in masonry, plumbing, electrical wiring, carpentry, and painting. There is no vocational educational programs at all in that area which these people could be shifted to?

Mr. DYAL. There is not. The skill training for the most part in that area in most of the countries is at another level, a level a step just above that. The artisans training programs generally are for industry skills at yet a more median level.

This particular project you mention was a woman's effort in its first stage. The second effort is to include the men and that is what this particular project is designed to do. You are still talking basically about marginal attempts at skill training where those can be related to a real job market, and wherein there are not large enough programs or existent to be able to include those individuals.

Mr. MILLER. When we speak of these low-income communities the people are receiving the very type of training today that is being cut

out right in this country. If we are going to furnish funds for this we should furnish it pretty close to home.

Mr. Chairman, I see the lights are on and we do have a quorum call.

Mr. PASSMAN. I want to apologize for the delay in concluding the hearings. The witnesses will certainly be back so that you can finish your interrogation, or you can place your questions in the record. You have the option because under the rules every member of committee can take all the time he needs to finish his examination.

Mr. MILLER. It is not necessary to return.

OBLIGATIONS

Mr. PASSMAN. If the gentleman will remain with me so we have a quorum under the rules for just a moment, at least this will indicate that the committee has recommended adequate funds in the past. In fiscal year 1971 how much did you actually obligate?

Mr. PARKER. $376,000.

Mr. PASSMAN. In 1972, again the committee recommended $10 million and the Congress followed that obligation limitations. What did you obligate?

Mr. PARKER. $3,971,000.

Mr. PASSMAN. Thank you very much, gentlemen. I wish there was some way that we could bring the angels down out of the skies, you understand, and get away from these mythical and imaginary accomplishments because actually when I go out I just can't find any. We get a lot of conversation but we are not able to put our finger on a single accomplishment in many of these countries because the money goes in and it is absorbed. In a great many instances when we take our technicians out the countries go back to the old system that they have been accustomed to. It is difficult to get people to change their ways after they have lived a good part of their lives. You don't discount that, do you?

Mr. DYAL. No, sir.

Mr. PASSMAN. The committee will recess until 2 o'clock.

TUESDAY, APRIL 3, 1973.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

ASSISTANCE TO REFUGEES IN THE UNITED STATES (CUBAN REFUGEE PROGRAM)

WITNESSES

HOWARD H. PALMATIER, DIRECTOR, CUBAN REFUGEE PROGRAM
GLYNN W. BAKER, FINANCIAL MANAGEMENT OFFICER, CUBAN REFUGEE PROGRAM
MISS ANNA L. PERKINS, DEPUTY DIRECTOR, BUDGET DIVISION, SOCIAL AND REHABILITATION SERVICE
EARL L. CANFIELD, JR., DIVISION OF BUDGET, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
1. Welfare assistance and services	110,000	121,300	70,300
2. Resettlement	2,908	1,300	1,000
3. Education	17,824	16,000	14,000
4. Health services	3,028	4,000	3,000
5. Movement of refugees from Cuba	513	340	50
6. Program administration	2,453	2,060	1,650
Total obligations	136,726	145,000	90,000
Financing:			
Unobligated balance lapsing	2,264		
Budget authority	138,990	145,000	90,000
Budget authority:			
Appropriation	139,000	145,000	90,000
Transferred to other accounts	−10		
Appropriation (adjusted)	138,990	145,000	90,000
Relation of obligations to outlays:			
Obligations incurred, net	136,726	145,000	90,000
Obligated balance, start of year	16,484	23,195	24,978
Obligated balance, end of year	−23,195	−24,978	−11,978
Adjustments in expired accounts	−842		
Outlays	129,173	143,217	103,000

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Personnel compensation:			
Permanent positions	1,204	860	811
Positions other than permanent	62	30	30
Other personnel compensation	6	4	4
Total personnel compensation	1,272	894	845
Personnel benefits:			
Civilian	105	81	70
Benefits for former personnel	43	32	
Travel and transportation of persons	24	25	20
Transportation of things	3	6	4
Rent, communications, and utilities	429	464	365
Printing and reproduction	3	5	3
Other services	21,933	19,381	15,783
Supplies and materials	22	10	8
Equipment	4	2	2
Investments and loans	2,888	2,800	2,600
Grants, subsidies, and contributions	110,000	121,300	70,300
Total obligations	136,726	145,000	90,000

PERSONNEL SUMMARY

Total number of permanent positions	85	75	75
Full-time equivalent of other positions	7	2	2
Average paid employment	136	79	70
Average GS grade	9.8	9.7	9.7
Average GS salary	$15,580	$15,736	$15,883

Mr. PASSMAN. The committee will come to order.

We shall continue our examination of another request for funds for foreign aid. The agency examined this afternoon will be the Cuban refugee program administered by the Health, Education, and Welfare Department.

We have as the principal witness Mr. Howard H. Palmatier, director of the Cuban refugee program, and other supporting witnesses. The names will be spread upon the record.

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

Mr. PALMATIER. Yes, sir.

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.

An appropriation of $90 million is requested for fiscal year 1974, $55 million less than the amount available for the current fiscal year. The major reason for the decrease in 1974 is the phasedown in reimbursements to the States for welfare and medical assistance provided to needy Cuban refugees scheduled to begin July 1, 1973. The timing and scope of this phasedown action in fiscal 1974 are essentially the same as the plan presented to the committee last year.

WELFARE PHASEOUT PLAN

The key points of the phaseout plan, which was communicated to State welfare agencies almost a year ago, are as follows:

1. Beginning July 1, 1973, this program will no longer reimburse States for refugee assistance cases in which the head-of-family has been in the United States 5 years or more. Their needs will be met from the regular Federal/State and State/local welfare programs. An exception to one aspect of this policy will enable the State of Florida to continue to be reimbursed 100 percent from the Cuban refugee program for financial and medical assistance required by those needy refugees not eligible for assistance under the federally aided categorical public assistance programs, regardless of their length of residency in this country. These would be the so-called general assistance type cases which—in Florida only—the Department plans to exempt from the 5-year policy during fiscal year 1974. This exemption is designed to offset the impact which would otherwise fall on locally financed assistance programs in Florida, where approximately half of the Nation's Cuban refugees are located. The possible continuation of the exemption during fiscal years 1975–77 will be reviewed annually by the Department.

2. When the new federalized program of supplemental security income for the aged, blind, and disabled, which was established by the Social Security Amendments of 1972, becomes effective January 1, 1974, no funds will be available from the Cuban refugee program for nonmedical assistance for refugees who are eligible for the new program. The Cuban program, however, would continue to reimburse the States 100 percent for medical care provided to needy refugees who are receiving their basic maintenance payment through the supplemental security income program if the refugee has been in the United States less than 5 years.

3. All reimbursements from the Cuban refugee program would terminate by June 30, 1977.

FACTORS IN WELFARE PHASEOUT

In evolving this phaseout plan we were influenced by a number of considerations. The Senate Appropriations Committee in its action on the 1972 appropriation indicated that beginning in February 1972 none of the funds available to the Cuban refugee program would be available to furnish medical and welfare payments to refugees who had resided in the United States 3 years or more; this provision was rejected by the full Senate. A few weeks later, the House-Senate conferees recommended that "the executive branch exert every effort in bringing about the termination of this program as soon as reasonably possible." Another major consideration in planning the phaseout has been the drastic curtailment in the airlift since January 1972. When the final flight, now expected on April 6, 1973, occurs, there will have been a total of 50 flights during fiscal year 1973, the first year of the 5-year period that had been projected for achieving a complete, orderly phaseout of the Cuban refugee program.

The 5-year residency policy and the overall phaseout period, in our judgment, provide an orderly way to fulfill the congressional recommendation and at the same time avoid a sudden or undue burden on the States. The plan recognizes the minimum length of time in which a refugee may attain citizenship and may be expected to have overcome

the most serious aspects of adjustment to a new life in this country. It asks the States to assume some of the financial burden in recognition of the fact that the vast majority of Cuban refugees have entered into the mainstream of American life in the communities and States in which they live and have established a creditable record as industrious, self-supporting, taxpaying members of our society.

WELFARE ESTIMATE

Mr. Chairman, I should like to briefly speak to our estimate of $70.3 million for reimbursements to the States under this program for their welfare and medical assistance payments for needy refugees in 1974. Many variables are found among the States in the administration of welfare programs, such as differing levels of assistance standards and payments. Another factor is the extent to which vulnerable groups, such as refugees, encounter economic crises, illness, or other problems with which they cannot cope without public aid, or on the other hand, the extent to which some may be able to recover from such problems. The need for, and the type and cost of, medical care that may be required is difficult to predict. To these complexities of estimating, we have now added the phaseout policies and establishment of the new Federal SSI program. The justification material submitted to the committee provides detailed information on the underlying assumptions, methods, and statistics used in arriving at the cost estimates. We have attempted to construct the estimates as accurately as possible under the changed welfare setting expected to prevail in 1974 for the Cuban refugee program.

In brief, the budget estimates anticipate that some 93,000 Cuban refugees are expected to be receiving welfare and medical aid, nationwide, in June 1973, and that, as a result of the phaseout actions during fiscal 1974, this number will decrease to about 46,000 by June 1974, of whom 19,000 will be eligible only for medical assistance under this program. It is estimated that as much as another $70 million in costs for welfare and medical requirements for the "phased-out" needy Cuban refugees will have to be funded by other programs during 1974. This would include an estimate of about $40 million in funds from other Federal programs and $30 million from State/local resources. During the subsequent year—1975—with the Federal program of supplemental security income in effect the entire year, it is expected there will be substantial additional reductions in the Cuban refugee program's budget as well as savings to the States for refugees transferred to the SSI program on an annual basis.

The phasedown in welfare costs which I have been discussing, Mr. Chairman, has by far the greatest impact on our funds request since these costs have comprised nearly 85 percent of the budget for the past several years. But all other activities of the program are also being curtailed and phased down in the 1974 budget in keeping with the congressional directive.

PHASEDOWN IN EDUCATION ACTIVITY

In the education activity, substantial phasedown plans are underway. Since 1961 the Dade County, Fla., public school system has re-

ceived impact assistance from this program in recognition of the large number of Cuban refugee children enrolled in that system. These funds have followed various formulas over the years based on the number of refugee children in the school system. The current formula limits the count of refugee children to those who entered the United States during the airlift period (that is, since late 1965) and who have been in a U.S. school system for less than 5 years; there are now some 22,000 such children in Dade County's school system.

In order to achieve the kind of orderly, progressive phaseout of funds under the Cuban refugee program that we believe is desirable, a planned annual reduction is contemplated in assistance to the Dade County public schools, beginning in fiscal 1974.

The budget projects total school impact aid from this program for Dade County for 1974 at 80 percent of the estimated amount derived by application of the formula in 1973. This means our plan for phasing out these costs sets the base at $13 million; 80 percent of this amount results in the requested amount of $10.4 million for this type of impact assistance in fiscal year 1974. The plan provides for 60 percent of the base amount in 1975, 40 percent in 1976, and 20 percent in 1977, the final year. Under this plan, a larger proportion of the reduced funds will be earmarked each year for specific supplementary services directly related to the special needs of the Cuban children—such as special staff and instructional materials—which will continue to be of crucial importance during the next few years.

School officials of Dade County have been advised of this phaseout plan which we believe provides a reasonable, orderly phaseout of the school assistance. It recognizes the substantial tax base which exists in the Cuban community of Dade County—thereby reducing the "impact" needs which accompanied the rapid influx of thousands of destitute refugees during the early years of the refugee situation. At the same time, it recognizes the continuing special educational needs and problems of recently arrived refugee children and avoids the impact upon the schools which would occur from a sudden cut-off of funds.

Student loans for Cuban refugees are also being phased out. Beginning with the Fall semester of 1973, new borrowers will not be accepted under this program.

RESETTLEMENT ACTIVITIES

With regard to the resettlement activity, the voluntary agencies assisting in the reception, relocation, and related resettlements activities have been required to phase-down their staff considerably. Most of the emphasis of these agencies is now on providing day-to-day counseling services and helping refugees with post-resettlement problems and in emergency situations. Experience indicates that refugees throughout the country turn to these agencies—which originally assisted them upon arrival in the United States—with such problems as housing, job finding, English training, citizenship questions, and a variety of other problems relating to adjusting to their new country. We have encouraged the voluntary agencies to provide these services, especially if they can reduce the number of applications for welfare assistance.

The total staff of these agencies to be financed by this program is expected to be down to about 15 persons by the beginning of fiscal year

1974. Most of the $1 million budgeted for the resettlement activity in 1974 will be utilized by the agencies in the form of direct assistance to the refugees for meeting emergency needs and for providing short term help to new refugee arrivals who are expected to continue to enter in some volume through third countries. Some emergency needs will inevitably surface during the phaseout as refugees are removed from the Cuban refugee welfare rolls and States proceed with conversion to other programs. It is likely some States will encounter difficulties in some instances for those "general assistance" cases dropped from the Cuban program as they apply county criteria which often prevail in these "general assistance" programs that are not federally matched and often are entirely locally financed without State funds. The extent and usefulness of these services will be carefully observed during 1974.

HEALTH SERVICES

The health services activity relates to certain medical services which the program has supported in Miami for needy refugees, since the early days of the program, as the least expensive way of providing these services and to prevent the refugees from becoming a burden on local resources and facilities. The major activity is the Cuban Refugee Clinic—which is located in the Cuban Refugee Center, is administered by the Dade County Health Department, and is funded by this program on an actual cost basis. For example, drugs are purchased from the Veterans' Administration at its cost. Until recently, the refugee welfare recipients in Miami have had no choice but to have most of their nonhospitalization medical needs met through this clinic rather than through the provisions of the State's medicaid program. These medicaid services are provided through the private sector without the cost advantages which this program has achieved through the clinic arrangement. In other areas of Florida, and in other States, the use of medicaid provisions for needy refugees has, of course, been the practice, with reimbursement from the Cuban refugee program.

Due to a recent lawsuit in a Federal court in Miami, refugees who qualify for Florida's medicaid program are now eligible to have their medical needs met through that program's provisions rather than receiving medical care through the refugee clinic. February 1973 was the first month the refugees began utilizing the medicaid provisions, on an optional basis during that month, and experience thus far is not sufficient to determine the full impact of this new development on the clinic's operations and program expenditures.

The necessity to convert to medicaid, although more expensive, coincides with the direction the Cuban refugee program has been ing to effect total phaseout of all elements of the program; substantial retrenchments in clinic operations are now under discussion with the U.S. Public Health Service and Florida and Dade County public health officials. A large number of refugee welfare recipients in Miami, however, are not eligible for the medicaid program, and the clinic will continue to meet the medical care needs of these recipients who remain eligible under the welfare phaseout policy.

A 25-percent reduction in funds, below the 1973 level, is reflected in the $3 million requested for 1974 for the Health Service activity.

PROGRAM ADMINISTRATION

Federal program administration costs have been considerably curtailed as the airlift has diminished; the resumption of flights in December 1972, however, did slow down some reductions that otherwise would have been possible had the airlift completely terminated earlier as once anticipated. Almost all these program administration costs of $1.6 million estimated for 1974 relate to staff salaries, benefits, and related expenses.

There has not been an attrition in staff, nor is it anticipated, to the extent necessary to achieve the reduction we now believe is indicated with final cessation of the airlift. There are currently 80 staff on duty. We intend to again invoke reduction-in-force procedures to eliminate 18 positions by July 1 and expect at least 2 additional voluntary separations to occur. If we achieve this, our staffing level will be below that anticipated when the budget was prepared, resulting in 60 employees instead of 75 by the end of June. This means in the 2-year period between July 1971 and July 1973, total Cuban refugee program staff will have been reduced by 108. Throughout 1974 we will continue to examine our workload to determine, and to effect, any additional cuts in staff that seem indicated. It should be noted that savings from these forced reductions are not expected to result in substantial savings in 1974 since these employees will be entitled to severance pay on a week-to-week basis which will be considerable since many are in the older age bracket with long years of service, but do not qualify for civil service retirement.

Mr. Chairman, I should like to make an observation about the Cuban refugees who have come to our country in the last 14 years. They have, in general, established an excellent record for themselves in the United States, particularly in view of the fact that the quarter million who have been airlifted arrived in a state of complete destitution, without any possessions or resources; they had usually suffered years of harassment and deprivation; many could not speak English. Approximately 8 out of 10 refugees registered with the program are today fully self-supporting, taxpaying, contributing members of the communities and States in which they live. As a group, the refugees, in my opinion, have demonstrated a willingness and desire to depend on their own initiative and to contribute to the fullest extent possible in their country of asylum.

Mr. Chairman, that concludes my prepared statement. If there are questions, I shall do my best to answer them.

Mr. PASSMAN. Thank you very much for a comprehensive statement. We will want the justifications in the record at this point.

[The justifications follow:]

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL AND REHABILITATION SERVICE

Assistance to Refugees in the United States

Amounts Available for Obligations

	1973 Revised	1974
Appropriation	$145,000,000	$90,000,000

Page Ref.		1973 Estimate Pos.	1973 Estimate Amount	1974 Estimate Pos.	1974 Estimate Amount	Increase or Decrease Pos.	Increase or Decrease Amount
14	Welfare assistance and services	--	$121,300,000	--	$70,300,000	--	-$51,000,000
21	Resettlement	--	1,300,000	--	1,000,000	--	-300,000
22	Education	--	16,000,000	--	14,000,000	--	-2,000,000
26	Health services	--	4,000,000	--	3,000,000	--	-1,000,000
29	Movement of refugees from Cuba	--	340,000	--	50,000	--	-290,000
30	Program administration	75	2,060,000	75	1,650,000	--	-410,000
	Total, obligations	75	$145,000,000	75	$90,000,000	--	-$55,000,000

Obligations by Object

	1973 Estimate	1974 Estimate	Increase or Decrease
Total number of permanent positions	75	75	---
Full-time equivalent of all other positions	2	2	---
Average number of all employees	79	70	-9
Personnel compensation: Permanent positions	$860,000	$811,000	-$49,000
Positions other than permanent	30,000	30,000	---
Other personnel compensation	4,000	4,000	---
Subtotal, personnel compensation	894,000	845,000	-49,000
Personnel benefits	81,000	70,000	-11,000
Benefits for former personnel	32,000	---	-32,000
Travel and transportation of persons	25,000	20,000	-5,000
Transportation of things	6,000	4,000	-2,000
Rent, communications and utilities	464,000	365,000	-99,000
Printing and reproduction	5,000	3,000	-2,000
Other services	19,381,000	15,783,000	-3,598,000
Supplies and materials	10,000	8,000	-2,000
Equipment	2,000	2,000	---
Investments and loans	2,800,000	2,600,000	-200,000
Grants, subsidies, and contributions	121,300,000	70,300,000	-51,000,000
Total obligations by object	145,000,000	90,000,000	-55,000,000

Summary of Changes

1973 estimated obligations	145,000,000
1974 estimated obligations	90,000,000
Net change	-55,000,000

	Base	Change from Base
A. Program Decreases:		
The substantial diminishment in number of refugee arrivals, the assumption the freedom flights from Cuba to Miami will cease, the commencement of program phaseout in 1974, and establishment of a new Federal welfare program for the aged and disabled January 1, 1974, results in decreased costs in all areas:		
1. Welfare assistance, including health services, to needy refugees:		
(a) in Florida	$48,300,000	-$13,900,000
(b) in Other States	77,000,000	-38,100,000
Subtotal	---	-52,000,000
2. Resettlement activities related to helping refugees adjust to this country	1,300,000	-300,000
3. Educational activities:		
(a) Assistance to Dade County, Florida public schools	12,000,000	-1,600,000
(b) Student Loans	2,800,000	-200,000
(c) Professional, English, and vocational training	1,200,000	-200,000
Subtotal	---	-2,000,000
4. Movement of refugees from Cuba	340,000	-290,000
5. Program administration due to fewer man-years of Federal employment and decreased services due to smaller refugee influx	2,060,000	-410,000
Total, decreases and net change	---	-55,000,000

Explanation of Changes

A. PROGRAM DECREASES:

1. Welfare assistance

Florida.--Beginning July 1, 1973, reimbursements for welfare assistance from this program will be limited to only those refugees who have been in the United States less than 5 years if they are eligible for any of the Federally-aided public assistance programs (Old-Age Assistance, Aid to the Blind, Aid to the Permanently and Totally Disabled, Aid to Families with Dependent Children, and the Medical Assistance Program). This is expected to result in transfer to those programs of almost 14,000 refugees from the 39,300 estimated to be receiving assistance in Florida in June. Of the remaining group of about 25,000, when the new Federal program of Supplemental Security Income for the Aged, Blind, and Disabled goes into effect January 1, 1974, it is expected to further reduce the number of refugees receiving cash assistance from this program by about 9,000. This would result in a caseload of about 15,000 persons whose non-medical needs will be met from the Cuban Refugee Program; these and the 9,000 transferred to the new Federal program who will continue to be eligible to have their medical needs met from this program results in a total eligible caseload of about 24,000 persons in January 1974 which will continue to show a net decline as a result of the 5-year policy and case closings, resulting in a total estimated caseload for medical and cash assistance of 23,200 persons by June 30, 1974 in Florida, of which 8,400 will be eligible for medical assistance only.

Other States.--All Cuban refugees in the United States over 5 years will become ineligible for assistance under this program on July 1, 1973, including those not eligible for the Federally-matched public assistance programs but who are presumed eligible for State/local General Assistance programs which receive no Federal matching. These transfers to other programs result in a decrease from 54,000 persons receiving assistance in June 1973 to 27,000 in July. A further decrease to 25,000 is estimated by January 1, 1974, when the new Federal program for the Aged, Blind, and Disabled becomes operative. Transfers to this new program are expected to remove another 12,000 persons for whom cash assistance had been paid from the Cuban Refugee budget; their eligibility for medical assistance continues to be the responsibility of the Cuban program until their 5 year anniversary in the U.S. The remaining cash assistance caseload of 13,000 persons in January is expected to decline to 11, 800 by June 30, 1974. Those 12,000 refugees eligible for medical assistance only are expected to drop to 10,800 by June 1974. Thus the combined cash assistance/medical group and the medical only group is expected to include 22,600 persons in "Other States" on June 30, 1974.

2. Costs for resettlement-related services is estimated to be reduced by $300,000, reflecting further cuts in activities of the voluntary agencies assisting in this area.

3. All educational services will be reduced as the phasedown of these activities begins in 1974; the largest cut is in the largest item: impact assistance to Dade County public schools. Student loans and professional, English, and vocational training will also be reduced.

4. All costs related to the airlift are eliminated in 1974 except $50,000 for closeout costs of Swiss Embassy staff in Cuba working on airlift matters.

5. The net decrease estimated in program administration includes the full-year effect of staff losses in 1973 and further retrenchment in service items related to the expected cessation of airlift arrivals.

Authorizing Legislation

Legislation	1974 Authorized	1974 Appropriation requested
Migration and Refugee Assistance Act of 1962, Public Law 87-510.....	Indefinite	$90,000,000

MIGRATION AND REFUGEE ASSISTANCE ACT OF 1962

Section 2. (b), (2), (3), (4), (5), and (6):

(b) There are hereby authorized to be appropriated such amounts as may be necessary from time to time—

(2) for assistance to or in behalf of refugees designated by the President (by class, group, or designation of their respective countries of origin or areas of residence) when the President determines that such assistance will contribute to the defense, or to the security, or to the foreign policy interests of the United States;

(3) for assistance to or in behalf of refugees in the United States whenever the President shall determine that such assistance would be in the interest of the United States: Provided, That the term "refugees" as herein used means aliens who (A) because of persecution or fear of persecution on account or race, religion, or political opinion, fled from a nation or area of the Western Hemisphere; (B) cannot return thereto because of fear of persecution on account of race, religion, or political opinion; and (C) are in urgent need of assistance for the essentials of life;

(4) for assistance to State or local public agencies providing services for substantial numbers of individuals who meet the requirements of subparagraph (3) (other than clause (C) thereof) for (A) health services and educational services to such individuals, and (B) special training for employment and services related thereto;

(5) for transportation to, and resettlement in, other areas of the United States of individuals who meet the requirements of subparagraph (3) (other than clause (C) thereof) and who, having regard for their income and other resources, need assistance in obtaining such services; and

(6) for establishment and maintenance of projects for employment or refresher professional training of individuals who meet the requirements of subparagraph (3) (other than clause (C) thereof) and, who, having regard for their income and resources, need such employment or need assistance in obtaining such retraining.

Assistance to Refugees in the United States

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
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	112,130,000	112,130,000	112,130,000	112,130,000
1972	144,103,000	100,000,000	139,000,000	139,000,000
1973	161,000,000	145,000,000	161,000,000	145,000,000[9]
1974	90,000,000			

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/ Based on amount available in Continuing Resolution.

BUDGET SUMMARY -- CUBAN REFUGEE PROGRAM

Activity	1972	1973	1974	Increase or Decrease
1. Welfare Assistance and Services:				
Florida				
a. Financial assistance to needy refugees	$25,616,391	$30,300,000	$19,000,000	-$11,300,000
b. Transitional resettlement allowances	417,560	200,000	50,000	-150,000
c. Care of unaccompanied children	871,868	800,000	550,000	-250,000
d. Medical assistance	6,483,266	8,900,000	8,800,000	-100,000
e. State administration	2,960,655	4,100,000	3,000,000	-1,100,000
Subtotal (Florida)	36,349,740	44,300,000	31,400,000	-12,900,000
States other than Florida				
Financial and medical assistance to needy resettled refugees	73,650,260	77,000,000	38,900,000	-38,100,000
Subtotal	110,000,000	121,300,000	70,300,000	-51,000,000
2. Resettlement	2,907,989	1,300,000	1,000,000	-300,000
3. Education:				
a. Assistance to public schools in Dade County, Florida	13,678,909	12,000,000	10,400,000	-1,600,000
b. English and Vocational training	1,100,000	1,000,000	900,000	-100,000
c. Assistance to college students	2,887,508	2,800,000	2,600,000	-200,000
d. Professional training and placement	156,893	200,000	100,000	-100,000
Subtotal	17,823,310	16,000,000	14,000,000	-2,000,000
4. Health Services:				
a. Refugee health clinic	1,716,538	2,236,000		
b. Outpatient hospital services	752,231	1,058,000		
c. Maternal and child health, and school health services	189,777	285,000	3,000,000	-1,000,000
d. Hospitalization for long-term illness	369,736	421,000		
Subtotal	3,028,282	4,000,000	3,000,000	-1,000,000
5. Movement of Refugees from Cuba	513,420	340,000	50,000	-290,000
6. Program Administration	2,453,350	2,060,000	1,650,000	-410,000
Total	136,726,351	145,000,000	90,000,000	-55,000,000

Justification

Assistance to Refugees in the United States

General Statement

Assistance to Refugees in the United States, generally referred to as the Cuban Refugee Program, is authorized by the Migration and Refugee Assistance Act of 1962 (Public Law 87-510). The program is responsible for providing for health, educational, and welfare needs of the refugees. Provision for their needs encompasses financial and medical assistance as well as services geared to help employable refugees become self-supporting as rapidly as possible. The services provided include placement of refugees in areas all over the country to help as many as possible to become self-supporting and build meaningful lives in their country of asylum.

In Miami, where approximately one-half of the some 600,000 refugees in the United States are located, English and vocational training is provided and intensive counseling is carried on with the potentially employable refugees to fit them for job opportunities.

The port of entry into the United States for most persons assisted under this program is Miami, Florida, where the principal operational facility of the Cuban Refugee Program, the Cuban Refugee Center, is maintained. It is in Miami that the arriving refugees are medically screened, interviewed, and registered to record the family composition, age, educational background, skills, etc. It is also here that a variety of services to help the Cuban refugee become assimilated into daily living in the United States, including resettlement, are initiated through the auspices of several national voluntary agencies. Working through these agencies, literally thousands of individual citizens, civic organizations, firms, etc., have offered opportunities to Cuban refugees.

Refugees from Cuba were arriving in Miami at the rate of about 1,700 a week when the missile crisis occurred in October 1962 after which this number of arrivals decreased by about 90 percent. On October 3, 1965, the President of the United States announced that the United States would permit the orderly influx of refugees allowed to leave Cuba under a more liberal refugee policy adopted by the Cuban Government. In December 1965, a new influx of refugees started with the inauguration of freedom flights--the airlift operated by the U.S. as provided for in a United States-Cuban Memorandum of Understanding negotiated through the Swiss Government.

About 42 flights brought approximately 3,500 refugees to Miami each month between December 1965 and August 1971 when the Cuban Government began a series of interruptions in airlift operations. Only 26 flights had occurred during calendar year 1972 until December 11 when the airlift resumed; it is expected that at least 40 flights bringing 3,400 refugees into Miami will take place before another interruption occurs, and then "some additional number" will come according to information received by the State Department from Cuban authorities. It appears that there now remains only a small residual group of refugees who will be allowed to depart Cuba on future airlift flights; the budget assumes a total of 75 flights in 1973 and none in 1974.

At the end of December 1972, refugee registrations at the Cuban Refugee Emergency Center in Miami totaled 447,795; of these 296,806 had been resettled to some 3,000 communities throughout the United States. Almost 265,000 of these registrations and 202,000 of the resettlements have occurred since December 1, 1965, the date the refugee airlift started.

The anticipated cessation of airlift activities and other considerations led the Department of Health, Education, and Welfare to plan a phaseout of the Cuban Refugee Program to begin in July 1973, with complete termination of the program projected for June 30, 1977. The House-Senate conferees recommended that "the Executive Branch exert every effort in bringing about the termination of this program as soon as reasonably possible" in connection with the 1972 appropriation.

The major impact of the phaseout efforts in 1974 will be reductions in reimbursements to the States for welfare and medical assistance for needy Cuban refugees. Since inception of the program these costs have been reimbursable on a 100 percent basis, accounting for over 85 percent of the Cuban refugee budget in recent years. Beginning next July, reimbursement from the Cuban program will no longer be available for those refugees who have been in the U.S. 5 years or longer; their needs will be met from the regular Federal/State/local public assistance programs.

The 5-year policy recognizes the minimum time for the refugee to have become a U.S. citizen and to have overcome the most serious aspects of adjustment to this country; in most States the Cuban refugees transferred to regular welfare programs will constitute a very small portion of the State's total caseload. Some modification of this plan is contemplated for Florida due to the large concentration of refugees there. When the new Federal program of Supplemental Security Income for the Aged, Blind, and Disabled (provided for by the Social Security Amendments of 1972--Public Law 92-603) goes into effect January 1, 1974, a large number of refugees in the U.S. less than 5 years will have their non-medical needs met from that program.

Another area affected by the phaseout plans in 1974 is assistance to Dade County public schools that was started some years ago due to the heavy impact of large numbers of newly arrived refugee children enrolled in the schools and the very serious educational problems encountered by school officials in educating these children, most of whom were only Spanish speaking at time of enrollment. The budget provides for a 20 percent decrease compared to the 1973 amount called for in the formula for assistance to Dade County schools. Again, anticipated cessation of the airlift and the fact that so many Cubans are fully assimilated into the economic life of the county, sharing their part of the tax load, has been considered.

The reductions in the welfare area and school assistance discussed above are two examples of phaseout savings that this program will achieve in 1974; considerably more detail is provided on these and other areas affected by the phasedown in the justification material by activity which follows. It is the Department's judgment that these phaseout plans for 1974 provide an orderly start to fulfilling the Congressional recommendation and at the same time avoid a sudden or undue burden on the States.

In general, the refugees have established an excellent record for themselves in the United States, particularly in view of the fact that the quarter million who have been airlifted have arrived in a state of complete destitution, without any possesions or resources; they have usually suffered several years of harassment and deprivation by the authorities in Cuba; and many do not speak English. Over 8 out of 10 refugees registered with the program (a condition for assistance) are fully self-supporting, tax-paying, contributing members of the communities in which they live. The program will continue to be responsible for helping many thousands of these refugees, but many other thousands will lose their identity with the program as they meld into ongoing domestic programs and the scope of this program narrows each year.

For fiscal year 1974, $90,000,000 is requested for assistance to Cuban refugees. This is $55,000,000 less than the estimated requirements of $145,000,000 for 1973. The activities developed by the Federal Government in cooperation with State and local governments and private agencies, and the funding levels required for these activities in 1974 are discussed under each of the six budget activities, which follow.

Assistance to Refugees in the United States

Activity 1. Welfare Assistance and Services

	1972	1973	1974	Increase or Decrease
I. Florida.....	$36,349,740	$44,300,000	$31,400,000	-$12,900,000
II. Other States.....	73,650,260	77,000,000	38,900,000	-38,100,000
Total	110,000,000	121,300,000	70,300,000	-51,000,000

Under this activity State welfare and health agencies have been reimbursed on a 100 percent basis--so as not to place an additional financial strain on the already overburdened resources of these agencies--for financial assistance and essential medical care provided eligible needy Cuban refugees. This assistance is administered through Federal, State, and local channels and in general is based on need standards applicable in regular U.S. programs in the State where the refugee resides. Because of the large refugee population in Florida, there is a separate presentation of data for its welfare activity which includes several special elements.

The policy of reimbursing the States 100 percent from Federal funds for assistance granted to needy eligible Cuban refugees was initiated at the same time that the Cuban Refugee Program was established in February 1961. The furnishing of such assistance to refugees was included in the original directive from the President to the Secretary of Health, Education, and Welfare.

As time has passed, the vast majority of refugees have entered into the mainstream of American life as self-supporting, tax-paying members of the communities and States in which they live. This factor, coupled with several other recent developments, has resulted in a Department decision to begin an orderly phaseout as soon as practicable of the special welfare assistance provisions for Cuban refugees. The other factors contributing to this decision include (a) the very limited number of airlift flights since January 1972, with the anticipation that only a few more flights will operate before the Cuban Government completely terminates the airlift; and (b) a statement by the Senate-House conferees in connection with the 1972 appropriation that "the Executive Branch exert every effort in bringing about the termination of this program as soon as reasonably possible."

A major change is expected to be made in the policy of reimbursing States for welfare and medical assistance effective July 1, 1973. In general, the plan contemplates limiting reimbursements for assistance of this type under the Cuban Refugee Program to refugees who have been in the United States less than 5 years; the States' regular welfare programs would be utilized for refugees in the U.S. over 5 years. It is anticipated there will be some modification in this general policy to recognize unique situations such as in Florida where about one-half of the refugees in the United States reside. This special policy proposal, subject to annual review, provides that a State in which 3 percent or more of the total population of the State was born in Cuba, according to the 1970 Census of Population, would not be subject to the 5-year residency requirement if the refugees were ineligible for the Federally aided public assistance programs. Only Florida would benefit from this policy which the Department expects to adopt for at least fiscal year 1974. The general 5-year policy recognizes the minimum time it takes for a refugee to become a U.S. citizen and would appear to be sufficient time for him to have overcome the most serious aspects of adjustment to this country; and except in Florida, Cuban refugees will constitute a very small portion of the total welfare caseload of the various States.

It should be noted that following release of information last June to State welfare officials regarding the Department's commitment to Congress of its intention to begin a planned, orderly phasing out of the refugee program effective July 1, 1973, a number of States have raised objections to the withdrawal of any Federal funding as early as next July, citing the fact that the U.S.-sponsored airlift that began in 1965 has not yet finally ceased. The Department, however, is proceeding and proposed regulations are pending which would effect the commencement of the phaseout as planned.

Another major impact on this 1974 budget in the welfare area relates to enactment of HR-1--Public Law 92-603--in the last Congress. This Act established a new Federal program of "Supplemental Security Income for the Aged, Blind, and Disabled, "to become effective January 1, 1974. The law provides that this new program will specifically include "an alien lawfully admitted for permanent residence or otherwise permanently residing in the United States under color of Law (including any alien who is lawfully present in the United States as a result of the application of the provisions of section 203(a)(7) or section 212(d)(5) of the Immigration and Nationality Act)." Thus, a very sizable number of additional refugees who have been in the U.S. less than 5 years will be eligible to have their non-medical needs met from this new program beginning next January and the Cuban Refugee budget for 1974 excludes funds for reimbursements to the States for any maintenance payments after December 31, 1973, for the group of refugees expected to be transferred to the new program of Supplementary Security Income for the Aged, Blind, and Disabled which will be administered by the Social Security Administration.

A discussion of the welfare estimates, and the impact of the phaseout beginning July 1, 1973, and the new Federalized cash assistance program starting in January 1974, follows. A table at the end of this section presents statistical and cost data for each of the 3 years according to two major areas: (1) Florida and (2) Other States. Since the exodus of refugees from Cuba began in 1959 the principal port of entry into the United States has been Miami, Florida, and according to reports from that area about one-half of the some 600,000 Cubans who have sought asylum in the U.S. since Castro's takeover of Cuba reside today in South Florida. This is one of the reasons why such a large, identifiable part of this activity is required--and presented separately--for Florida. It also explains why it has been necessary to establish a number of special welfare-related program elements in the Miami area which are separately identified within the Florida data.

I. Florida

a. Financial Assistance (for Maintenance) in Florida.

A total of 39,300 persons are expected to be receiving financial assistance in Florida on June 30, 1973. For some 20,000 of those persons, a small part of their monthly financial assistance payments, totaling about $6,000,000 for the year, is being met through Florida's regular public assistance programs rather than this program. Of the 39,300 receiving assistance, just prior to invocation of the 5 year policy, almost 70 percent, or 26,800 are expected to have similar characteristics to persons eligible for the Federally matched categorical programs; one-half of these will have been in the U.S. for over 5 years on July 1, 1973, resulting in a caseload of 13,400 persons who, while meeting eligibility requirements for the categorical Public Assistance programs, have been in the U.S. less than 5 years and will continue to be eligible for assistance under the Cuban Refugee Program on July 1, 1973.

In addition, it is estimated that some 12,500 other needy refugees receiving assistance in Florida will continue as of July 1, 1973, to be the responsibility of the Cuban Refugee Program regardless of their length of time in the United States. These persons are not eligible for the regular categorical welfare programs because they are not 65 years old, or they are not completely disabled, or they are not part of a family where dependency is due to absence from the home, or disability, of a parent. These types are referred to as "General Assistance" cases. There has never been Federal matching for "General Assistance" programs wherever they exist throughout the United States; where there are such programs the funding can be all State, all local, or a combination of State/local funds, and their geographic coverage within the State and their need and eligibility standards vary considerably among the localities depending on funding sources. In Florida there is no Statewide General Assistance program; some of the counties, including Dade County, have these types of programs but their annual funding is very limited and if an exception were not possible so that the Cuban Refugee Program provides funding for the large Cuban "General Assistance" caseload in Florida (almost entirely in Dade County), the very limited local funds now utilized for the regular domestic program would simply have to be spread over such a large group that Dade's General Assistance program would become meaningless—Americans and Cubans would suffer since the funds would be exhausted so quickly. The needs of the Cuban Refugee General Assistance caseload arise from a variety of causes—for example, many are between 60 and 64 years of age and because of language barriers, lack of skills, and/or substantial physical impairments are not able to be fully self-supporting in a strange land where they have no resources; others will require assistance for varying periods of time because of illness, job lay offs, etc.

Based on the foregoing there would be a combined Florida caseload of 25,900 persons chargeable to the Cuban Refugee Program as of July 1, 1973. This is expected to decline to about 24,400 persons by December 31, 1973, a net monthly decrease of 250 on the average.

Although some new cases will inevitably be added, the decrease of 250 recipients monthly appears possible because persons meeting eligibility requirements for the categorical programs will no longer be eligible for Cuban Refugee assistance upon reaching their 5-year anniversary in the U.S. and some General Assistance type cases will become categorically eligible as they reach minimum age requirements for Old-Age Assistance. Also, the General Assistance type cases offer more potential for utilization of services that culminate in self-support and concerted effort will be directed toward an intensive service-oriented program to bring about reductions in this caseload.

When the new Federal program of Supplemental Security Income for the Aged, Blind, and Disabled goes into effect January 1, 1974, an estimated 9,000 of the 24,400 persons receiving aid under the Cuban Refugee Program in December in Florida are expected to have their non-medical needs met from this new program, resulting in a caseload of 15,300 persons in January for whom the program will finance maintenance payments--these would be those characterized as General Assistance cases and Aid to Families with Dependent Children cases--the latter would be in the U.S. less than 5 years.

With respect to medical assistance, those persons transferred to the Supplemental Security Income program would continue to have costs for their medical care needs met by the Cuban Refugee Program if they have been in the U.S. less than 5 years. It is estimated that by June 30, 1974, 14,800 persons will require financial assistance from the Cuban Refugee Program to help with their day-to-day maintenance needs and that these along with 8,400 aged and disabled persons in Florida not receiving maintenance assistance from this program and in the U.S. less than 5 years will be eligible to have their medical care financed by the program.

b. Medical care in Florida.— Due to Federal court action in fiscal year 1973, Florida has had to extend the provisions of its regular Medicaid program to those Aged, Blind, and Disabled Cuban refugees in the Miami area who would technically qualify for that program, similar to the practice being followed in all other areas of the United States except Miami where the clinic, which has been operated by the Dade County public health agency for this program since 1962, has met most of the non-institutional medical care needs of all needy Cuban refugees in the Miami area. The primary reason for the lawsuit and the resultant court decision was to enable the patients to have freedom of choice of physicians, druggists, therapists, X-ray technicians, etc. The costs under the Medicaid provisions are expected to be substantially higher than the clinic's, and some additional services may be available.

The conversion to enable the refugees to exercise their new right to Medicaid is to begin in February 1973. As many as 20,000 may be eligible for the medicaid type arrangements. The hospitalization costs have always been handled similar to Medicaid and these costs--the largest in medical care--are not affected. Other medical items, however, that have not been a substantial part of the welfare activity due to the Miami clinic now appear in this budget activity, as for other States. For fiscal year 1973 the total medical care estimate for Florida included in this welfare activity is $8,900,000. Almost 75 percent--$6,100,000--is for hospitalization; the other $2,800,000 includes physician visits, drugs, cost for nursing home patients, home health services, ambulances, etc. Implementation of the Medicaid provision will not be effective more than a few months of fiscal year 1973, and the total additional cost in fiscal year 1973 due to this development is expected to be relatively small.

In fiscal year 1974, the Medicaid services will be in effect the entire year but due to the 5-year residency policy that is applicable to medical care costs to be borne by the Cuban Refugee Program, the eligible caseload will drop sharply on July 1, 1973, and monthly thereafter as persons attain 5 years residency. The 20,000 made eligible for non-institutional care through Medicaid the latter part of 1973 is expected to average only about 9,000 persons monthly in 1974 for whom the Refugee Program will be responsible.

Hospitalization costs in 1974 are expected to drop to $3,850,000 compared with the $6,100,000 estimated for 1973, primarily due to the reduction in the number of eligible recipients. Other items of medical care are expected to cost $4,950,000 in 1974 compared with $2,800,000 in 1973, reflecting a combination of reductions due to a smaller eligible caseloads offset by 12 months of operations under medicaid provisions. The table that follows provides additional information.

The clinic discussed under Activity 4, "Health Services," will continue to meet most of the non-institutional medical care needs of those not eligible for Medicaid--that is primarily the "General Assistance" group of recipients.

c. Special items in Florida's welfare program.--Costs for the several miscellaneous welfare items in Florida--care of unaccompanied children, resettlement allowances, and administration of Cuban refugee welfare assistance--are estimated at $3,600,000 in 1974 compared to $5,100,000 in 1973. This reduction primarily relates to administrative costs because of the reduction in the caseload chargeable to the Cuban Refugee Program; the 1973 estimate of $4,100,000 for this purpose is reduced to $3,000,000 in 1974. The table at the end of the activity provides additional details.

II. Other States

It is estimated that 50 percent of the caseload of 54,000 persons estimated to be receiving assistance under the Cuban Refugee Program outside of Florida in June 1973 will no longer be eligible for assistance under this program as of July 1 because of the 5-year residency policy. Of the 27,000 remaining persons who will continue to be assisted under the program, a net decrease of 2,000 is projected in the 6-month period between July and December 1973 due largely to transfers to regular programs upon reaching 5-year residency as well as case closings due to continued emphasis on self-support activities to the maximum extent possible.

Of the 25,000 refugees estimated to be receiving assistance under this program in December 1973, about 12,000 persons are expected to be eligible for the new federalized program of Supplementary Security Income for the Aged, Blind, and Disabled that begins operating on January 1, 1974. The Cuban program will no longer be responsible for payments for the basic day-to-day maintenance needs of the group transferred to the new program. Just as in Florida, however, these persons will continue to be eligible to have their medical care needs met through this program until they have been in the United States 5 years. The group of 12,000 refugees losing their entitlement to non-medical assistance under this program in January is expected to decrease to 10,800 by June 30, 1974; the group of 13,000 persons (General Assistance and Aid to Families with Dependent Children types) who will not be affected by the new Federal program and will continue to have both maintenance and medical needs met from this program is expected to decline to 11,800 by June 30, 1974; thus, a combined caseload of 22,600 persons are expected to be eligible for maintenance and/or medical care in States other than Florida under the Cuban Refugee Program on June 30, 1974, as compared with 25,000 persons 6 months earlier--a drop of 400 per month.

The total amount estimated for non-medical cost (i.e. for maintenance) in "other States" in 1974 is $24,700,000; the average monthly payment (without medical) is estimated as $107. Comparable 1973 data would be $58,000,000 as total maintenance payments at an average monthly payment of $93 per recipient.

In recent years medical care has represented about 25 percent of the total welfare costs to the program in "Other States." These costs are handled by the States just as in the regular Medicaid program: through payments to suppliers (vendors) of medical care and/or fiscal agents set up by the States to handle their medical vendor payments; and, as in the regular programs, payments may be made for the deductibles and co-insurance features of Medicare, and through buy-in agreements between the States and the Social Security Administration for monthly premiums for Part B of Medicare (primarily physician costs) for those refugees eligible for Medicare.

Of the total welfare cost of $77,000,000 now estimated for welfare costs in other States in 1973, about $19,000,000 would be for medical care, based on 25 percent. Of the total welfare estimate of $38,900,000 for 1974 in these "other States," $14,200,000 is estimated for medical costs--almost 37 percent. About $10,100,000 would be for the group receiving maintenance assistance under this program and $4,100,000 for the some 11,000 who will be eligible for only medical assistance under the Cuban program after December 31, 1973. This latter group will be the aged and disabled and their medical needs and costs will tend to be higher. Since medical costs are reimbursed according to when medical vendors' bills are paid by the State (or local) agency (in all States except Florida) and the recipient count relates to the number of bills paid in most instances, including those for whom monthly premiums are paid, the actual number of different persons receiving medical care in a given period is not reported by the State; experience in Florida indicates that virtually every welfare recipient receives some items of medical assistance at least during a year; and, of course, many receive it monthly or oftener, including those in institutions other than general hospitals.

Under the phaseout, States will be permitted to charge the Cuban program for medical services actually received before June 30, 1973, regardless of when the vendor bill is paid and regardless of how long the refugee has been in the United States if the treatment were rendered before June 30, 1973. The $10,100,000 medical costs estimate for 1974 for the cash assistance group includes $1,300,000 for these "catch-up" costs.

The table summarizing the estimates for welfare assistance and services follows.

Selected Statistical and Cost Data
for Welfare Assistance and Services

FLORIDA:	1972	1973	1974	Change
Financial Assistance (Total costs)....	$25,616,391	$30,300,000	$19,000,000	-$11,300,000
Average monthly number receiving....	34,200	37,400	20,100	-17,300
Average monthly payment per person..	$62	$68	$79	+$11
Number of recipients, June 30.....	35,607	39,300	14,800	-24,500
Medical Assistance (Total costs).....	$6,483,266	$8,900,000	$8,800,000	-$100,000
Hospitalization:				
Number of persons hospitalized.....	4,658	5,000	3,000	-2,000
Average monthly number of persons...	388	400	250	-150
Average number of days per person...	11.8	12	12	---
Average cost per day (all items of services while in hospital).....	$97	$102	$107	+$5
Total costs for hospitalization.....	$4,504,702	$6,100,000	$3,850,000	-$2,250,000
Other medical costs.....	$1,978,564	$2,800,000	$4,950,000	+$2,150,000
Florida Administration (Total costs)..	$2,960,655	$4,100,000	$3,000,000	-$1,100,000
Number of positions (end of year)...	400	450	300	-150
Unaccompanied Children (Total costs)..	$871,868	$800,000	$550,000	-$250,000
Average monthly number.....	284	250	165	-85
Average monthly cost.....	$255	$267	$280	+$13
Transitional resettlement allowance...	$417,560	$200,000	$50,000	-$150,000
Number receiving allowance.....	8,725	4,000	1,000	-3,000
Average amount per person.....	$48	$50	$50	---
Total costs for Welfare Services and Assistance in Florida.....	$36,349,740	$44,300,000	$31,400,000	-$12,900,000
OTHER STATES:				
Financial and Medical Assistance to Needy Refugees in States other than Florida:				
Average monthly number of persons assisted.....	51,096	52,000	24,800	-27,200
Average monthly cost.....	$120	$124	$131	+$7
Number of eligible recipients, June 30	55,140	54,000	22,600	-31,400
Total costs for Welfare Services and Assistance in States other than Florida.....	$73,650,260	$77,000,000	$38,900,000	-$38,100,000
TOTAL.....	$110,000,000	$121,300,000	$70,300,000	-$51,000,000

Assistance to Refugees in the United States

Activity 2. Resettlement

	1972	1973	1974	Increase or Decrease
Total	$2,907,989	$1,300,000	$1,000,000	-$300,000

Through contracts with several voluntary non-profit agencies, refugees are provided a variety of services to assist them into the mainstream of U.S. living, including reception services for new arrivals, relocation to homes and jobs in areas other than Miami and post-resettlement services relating to emergencies, job placement, etc. In fiscal 1972, the voluntary agencies assisted 12,513 refugees to relocate out of the Miami area to other parts of the country.

During 1974, as in 1973, assistance will be provided new arrivals and relocations out of Miami will be undertaken when in the best interest of the refugee, but the primary emphasis by the voluntary agencies will be on providing day-to-day counseling services to the refugees and on helping them with post-resettlement problems and in emergency situations. The voluntary agencies' organization, expertise, and day-to-day counseling and related activities for refugees already in the U.S., as well as new ones that continue to enter in some volume, continue to be an essential need of the Cuban Refugee Program.

In addition to reimbursing the voluntary agencies for a large portion of those administrative and operaticnal expenses directly associated with the Cuban refugee program, actual direct assistance provided the refugee, such as a month's rent and cash allowance for meals and incidentals such as those incurred while traveling from Miami to the relocation point is also reimbursed.

The voluntary agencies have reduced their staff very significantly in the past year and a further reduction of $300,000 for this budget activity is projected in 1974 to give account to the continued phasedown by these agencies.

Assistance to Refugees in the United States

Activity 3. Education

	1972	1973	1974	Increase or Decrease
a. Assistance to Dade County, Florida, public school system	$13,678,909	$12,000,000	$10,400,000	-$1,600,000
b. Vocational and English training for youths and adults	1,100,000	1,000,000	900,000	-100,000
c. Loans to students	2,887,508	2,800,000	2,600,000	-200,000
d. Professional training and placement	156,893	200,000	100,000	-100,000
TOTAL	17,823,310	16,000,000	14,000,000	-2,000,000

a. Assistance to Dade County Public Schools

In fiscal year 1961 when the Cuban Refugee Program started there was a large number of Cuban refugee children in Miami that had arrived in this country in a very short period of time, and their entry into the Dade County public school system was placing an extraordinary burden on it. This resulted in Federal recognition of the need to assist that County financially if it were to meet the educational needs of these children. Federal financial aid has been given to Dade County annually since 1961 under this program as the number of school children has continued to climb. The formula for the Federal aid has been changed several times over the years in an effort to continue to recognize the impact of large numbers of Cuban children while also attempting to bring about a reduction, or at least a leveling off, in annual Federal funds requirements for this purpose.

Beginning with fiscal year 1971, the Federal payment was limited to refugee children who entered the U.S. after October 3, 1965. The new influx of Cubans into the U.S. began following President Johnson's offer of asylum made at a ceremony at the Statue of Liberty on that date. And for this group of children, no payment is made if the child has been enrolled in any U.S. school system for 5 years or longer.

For those children determined eligible, as indicated above, the formula in effect in 1971 and continued for 1972-73 is as follows (a table at the end of this activity provides statistics based on the formula):

(1) The program has been paying 50 percent of the per-pupil operating cost, as determined for the entire public school system of Dade County, based on the average daily membership (ADM) of Cuban refugee children in grades 1 through 12 of the school year.1/ Until 1972 the program made a one-time payment for school facilities.

(2) An annual payment is also made for special training materials and supplementary personnel required to meet the special needs of the refugee children; this payment is equal to 14 percent of the total operating cost determined for computing the Federal share under item (a.) above.

(3) An amount each year (approximately $160,000) has been authorized for a summer English language program for refugee children; this is being discontinued in 1973 since Dade County has increased its school year to include summer months.

In 1974 this formula is expected to be discarded; the budget projects an overall decrease of 20 percent in assistance to Dade County Schools for 1974 compared with the 1973 amount estimated under the formula. This is being done in order to effect a more orderly phaseout of this cost than the formula would yield. The number of "formula" children is not decreasing as rapidly as expected and its continuation will not achieve a yearly phasedown that results in a progressive, orderly termination of all Federal assistance from the Cuban Refugee Program by the end of fiscal year 1977. It is contemplated a larger proportion of the funds each year will be earmarked for supplementary services directly related to the special needs of the Cuban children (Cuban teacher aides, special instructional materials, etc.) and a smaller portion for unearmarked general operating expenses of the school system.

b. English and Vocational Training

In the early 1960's the Dade County public school system at the request of the government organized classes in English and other subjects for Cuban refugee youths and adults in order to provide opportunities for employment in and outside of Florida. This training is now supplemented by classes in office-type skills such as typing, shorthand, operation of various types of office machines; hotel and restaurant operations; specialized hand-sewing; and courses in such fields as drafting, radio, television repair, air-conditioning, and automobile repair. There is a continuing examination of the financial assistance caseload to encourage refugees to take advantage of this training.

The decrease of $100,000 in 1974 relates to a smaller number of new refugees expected to be in Miami as a result of the airlift cessation. (The table at the end of this activity provides statistics.)

c. Assistance to College Students

Loans are made available to Cuban refugee students who are without sufficient resources to finance their attendance at colleges and universities in the United States. Criteria for granting loans follow the pattern established for U.S. students in the National Defense Education Act.

As depicted in the table at the end of the activity, the estimated number of students for whom loans will be available is being reduced in both 1973 and 1974. The 1973 estimate gives account to some declining trend evident in 1972 as well as the fact there should be fewer applicants due to airlift

1/ For 1973, at this writing, it is expected that funds available to the Cuban Refugee Program will permit it to pay about 45% of the per-pupil operating costs.

cessation. With respect to 1974, however, as part of the phaseout plan for student loans, schools have already been notified that for new borrowers loans will be limited beginning in the Fall of 1973 to only those students who are not eligible under the domestic loan programs because they do not have the immigration status of permanent residence. The small increase in the average amount of loans assumes graduate student borrowers, for whom larger loans are possible, will represent a larger proportion of the borrowers.

d. Professional Training and Placement

For many of the Cuban refugees with professional backgrounds some training or reorientation for them has been necessary before they acquire eligibility to follow their professions in the U.S.; for example, through retraining and refresher courses the program has been very successful in providing Spanish language teachers to meet demands in various parts of the country and in enabling Cuban physicians and dentists to qualify for practice of their profession in the U.S. A decline is anticipated in this area, however, reflecting the phasedown of this type of training since there are fewer new refugees entering the country for whom such training appears appropriate. The next page provides statistics.

Selected Statistical and Cost Data for Education

	1972	1973	1974	Change
1. Public school system of Dade County, Florida				
a. Number of eligible children in average daily membership (ADM)..	23,640	22,000		
b. Total operating cost per pupil.....	$853	$923		
c. Federal share of above based on 50% in 1972 and 1973.....	$427	$462	$10,400,000[3/]	-$2,600,000
d. Total Federal payment for operating cost (a.times c.)	$10,086,715	$10,156,000		
e. Auxiliary services and supplies (28% of item d.)	$2,824,280	$2,844,000		
f. Federal payment for special summer school.....	160,000	---		
Subtotal.....	13,070,995	13,000,000	10,400,000	-2,600,000
g. Adjustment.....	+607,914[1/]	-1,000,000[2/]	---	+1,000,000
Total Assistance to Dade County Public Schools.....	13,678,909	12,000,000	10,400,000	-1,600,000
2. English and Vocational Training--Total Amount	$1,100,000	$1,000,000	$900,000	-$100,000
No. of English Trainees....	3,000	2,700	2,400	-300
No. of Vocational Trainees.	500	450	400	-50
3. Assistance to College Students				
Total Amount.....	$2,887,508	$2,800,000	$2,600,000	-$200,000
Number of Borrowers.....	3,208	3,040	2,600	-440
Average loan per student...	$900	$921	$1,000	+$79
4. Professional Training and Placement--Total Amount....	$156,893	$200,000	$100,000	-$100,000
No. of Profess'l Trainees..	350	375	200	-175
Total for Education	$17,823,310	$16,000,000	$14,000,000	-$2,000,000

1/ Special Federal make-up payment authorized in 1972 due to shortage of funds in 1970, when full payment to Dade County called for under the formula was not made.

2/ This reduction is shown in order to reflect amount estimated to be available for Dade County schools in 1973 as contrasted with what the formula would yield; instead of 50% of the operating cost it is estimated about 45% will be paid by the Cuban Refugee Program in 1973.

3/ The data for 1972 and 1973 for Dade County are based on a formula negotiated with the school officials sometime ago. As explained in the narrative, for fiscal year 1974 it is planned to reduce the amount of assistance earned by the formula for 1973 by 20 percent which is estimated to be a larger reduction than would occur if the present formula were continued.

Assistance to Refugees in the United States

Activity 4. Health Services

	1972	1973	1974	Increase or Decrease
a. Refugee Health Clinic..	$1,716,538	$2,236,000		
b. Outpatient hospital services.....	752,231	1,058,000		
c. Maternal and Child Health, and school health services.....	189,777	285,000	$3,000,000	-$1,000,000
d. Hospitalization for long-term illness....	369,736	421,000		
Total.....	$3,028,282	$4,000,000	$3,000,000	-$1,000,000

Since 1962 health services have been provided to needy Cuban refugees in the Miami area through the cooperation of the Public Health Service, the Dade County Health Department, and local and State hospitals. These services are rendered through: (1) the refugee health clinic located at the refugee center (with staff servicing the reception center as necessary); (2) outpatient medical services provided at local hospitals; (3) community health services by Dade County health personnel; and (4) hospitalization for tuberculosis and mental patients at State/local hospitals.

The clinic services include medical screening, examinations, X-rays, treatment, and provision of prescribed drugs. Arrangements are made through the clinic for out-patient services when necessary at local hospitals and for care of patients with tuberculosis and mental illness. Clinic services have been available to all those receiving welfare assistance in the Miami area through the Cuban Refugee Program since the early 1960's. New arrivals are given medical examinations upon arrival.

Outpatient services at local hospitals have been required in emergency situations when the Health Clinic was not open or when services required were beyond the facilities and capabilities of the clinic and its staff. It is estimated, however, that 85 percent of the services required by refugees were provided by the clinic and the remaining 15 percent by local outpatient hospital facilities in the Miami area.

The program finances salaries and related costs for Dade County health personnel in providing maternal and child health and school health services to Cuban refugees--these costs relate to salaries and other expenses for approximately 28 positions. Some decrease in this item will occur in 1974 as part of program phaseout efforts.

The table above and the summary that follows this section provides detailed information on cost and statistical data for actual operations in 1972 and planned for 1973 based on a contractual agreement prepared by the Dade County public health agency as a result of negotiations with DHEW staff, including representatives of the Public Health Service responsible for execution of the Agreement on behalf of the Government.

A recent development in Florida is expected to have considerable impact on clinic operations in 1974, but the extent of change and the effect on the several medical components comprising clinic-related activities cannot be statistically quantified with realistic estimates for 1974 as in prior years. The reason for the pending changes affecting the Miami Refugee clinic operations results from a Federal court action in fiscal year 1973 in which Florida agreed to extend the provisions of its regular Medicaid program to those Aged, Blind, and Disabled Cuban refugees in the Miami area who would technically qualify for that program similar to the practice being followed in all other areas of the United States except Miami where the clinic, which has been operated by the Dade County public health agency for this program since 1962 has met most of the non-institutional medical care needs of all needy Cuban refugees in the Miami area. The primary reason for the lawsuit and the resultant court decision was to enable the patients to have freedom of choice of physicians, druggists, etc. The costs under the Medicaid provisions, which are expected to be substantially higher than the clinics, are discussed under the "Welfare Assistance and Services" activity of this budget, where costs for medical care have always appeared except those related to services provided through the Cuban Refugee Clinic in Miami.

The conversion to enable the refugees to exercise their new right to Medicaid is to begin in February 1973. As many as 20,000 refugees may be eligible for the Medicaid type arrangements, and it is certain the clinic caseload and operations will be diminished to some degree, but the extent is not known. There remain some 15,000 persons who would not currently qualify for the Medicaid program who must continue to utilize the clinic. To what extent the private medical manpower in Miami can, or will, in fact absorb this very large group of new patients is uncertain and it may be that many of the affected group will have to continue to seek help from the clinic for their health problems, at least for a while.

The budget for 1974 is reduced by 25 percent over the previous year's estimate for the clinic-related operations. Plans are now under discussion to effect a retrenchment in medical and other clinic staff to accommodate to the new situation as rapidly as circumstances permit.

Selected Statistical and Cost Data for Health Services

	1972	1973
a. Refugee Health Clinic		
Total Cost	$1,716,538	$2,236,000
Average monthly number of examinations or services rendered	34,229	36,000
b. Outpatient Hospital Services		
Total Cost	$ 752,231	$1,058,000
Number of outpatient visits to local Hospitals	38,186	42,300
Average cost per visit	$ 20	$ 25
c. Maternal and Child Health and School Health Services		
Total Cost	$ 189,777	$ 285,000
Number of Staff	27	28
d. Hospitalization for Long-term Illness: Tuberculosis and Mental Patients		
Total Costs	$ 369,736	$ 421,000
Tuberculosis Patients:		
Number of days of care	2,151	2,000
Average cost per day	$ 27	$ 30
Cost	57,832	60,000
Mental Patients:		
Number of days of care	28,686	27,200
Average cost per day	$ 11	$ 13
Cost	311,904	361,000
Total cost, Health Services	$3,028,282	$4,000,000

As explained in the preceding narrative, for fiscal year 1974 the cost for this activity is estimated to be 25 percent ($1,000,000) less than in 1973, but until some experience is available on the extent to which some patients shift to medicaid (covered under the Welfare activity) realistic projections on utilization of clinic-related services can not be determined.

Assistance to Refugees in the United States

Activity 5. Movement of Refugees from Cuba

	1972 Actual	1973 Estimate	1974 Estimate	Increase or Decrease
Air transportation.....	$325,775	$143,500	$ —	-$143,500
Swiss representation...	172,000	180,000	50,000	- 130,000
State Department costs.	15,645	16,500	—	- 16,500
Total	513,420	340,000	50,000	- 290,000

This activity has provided for the cost of airlifting the refugees from Cuba, including costs of the State Department staff and Swiss Embassy staff in Cuba working on airlift matters. The annual number airlifted approximated 42,000 until fiscal year 1972 when interruptions in the airlift from time to time occurred; 17,624 refugees arrived via the airlift during fiscal year 1972.

Until December 11, 1972, there had been no flights during fiscal year 1973; the airlift resumed on December 11 and it is expected that 40 flights will occur, before another interruption, bringing 3,400 refugees into Miami. This should be accomplished by February 9, 1973. Based on what the Cuban Government has advised the State Department, some additional persons beyond the 3,400 are expected to be ready for departure on the airlift at a later date. It appears that there now remains only a small residual group who will be allowed to depart Cuba on future airlift flights. The budget assumes there will be a total of 75 flights in fiscal year 1973 (averaging 85 persons each or a total of 6,400 persons) and none in 1974. The cost of the airflights in 1973 is $1,900 per flight compared with an average cost of $1,706 per flight for the 191 flights that occurred in fiscal year 1972. The $50,000 estimated for this activity for 1974 is based on an estimate provided by the State Department for close-out costs of Swiss Embassy staff in Havana who have been working on airlift matters.

Assistance to Refugees in the United States

Activity 6. Program Administration

	1972	1973	1974	Increase or Decrease
Personnel compensation and benefits.....	$1,420,741	$1,007,000	$ 915,000	-$ 92,000
Other expenses.....	1,032,609	1,053,000	735,000	- 318,000
Total cost.....	$2,453,350	$2,060,000	$1,650,000	-$410,000

This activity provides for Federal direction and day-to-day operation of the program, including a variety of services for newly arriving refugees as well as those already in the U.S. Provision is made for reception, registration, feeding, lodging, etc. for new arrivals. For Cuban refugees in the Miami area, continuing emphasis is placed on training and employment and assuring that barriers to achieving self-support are dealt with as effectively as possible.

In 1961, when the Cuban Refugee Program was started, a Cuban Refugee Emergency Center was established in downtown Miami, Florida, to serve as a focal point for Cuban refugee registration, resettlement, and out-of-State employment activities, and to coordinate the local aspects of the Department's general program of aid to the Cuban refugees. Additional facilities have been necessary in recent years at the Miami International Airport in order to facilitate reception and movement of those refugees destined to move on to join relatives in distant cities; most of the airport services, now considerably curtailed, are expected to be phased out by the end of the current fiscal year.

All incoming refugees are registered, interviewed, and classified as to job skills. Characteristics and make-up of the families are recorded as are the where-abouts of friends and relatives in the United States. Following registration, refugees are referred (1) for medical examination, and (2) to one of the voluntary agencies for resettlement assistance, which may be for help in reaching relatives in the vicinity or for resettlement out of Miami, in which case arrangements must be made for lodging, meals, etc., until transportation arrangements out of Miami are completed and the refugee's trip begins. There were 18,983 new registrations in fiscal year 1972; 12,513 refugees were resettled.

Refugees who remain in Miami are referred for appropriate educational and job counseling and for welfare assistance if they are in need. In addition, refugees in Miami turn to the downtown Center for guidance and assistance in many aspects of their daily lives; to seek outpatient medical care; to make inquiries about their status with respect to training, employment, or financial assistance; to report changes in family composition because of deaths, births, or marriage; to report changes of address and to replace lost identification cards; and to seek resettlement and other services from the voluntary resettlement agencies.

Curtailment of the airlift in fiscal year 1972 resulted in reductions in services, staff, and costs. The Federal staff of 168 at the beginning of the fiscal year was reduced by almost one-half -- to 85 by June 30, 1972. Most of these staff will be engaged in directing various program activities, developing policy guidance, and carrying out the day-to-day work of maintaining essential program operations in 1973 and 1974. Minimum staff capability must be available for such tasks as providing for registration, emergency assistance, and other processing services as necessary for newly arriving refugees; maintaining lists of refugees eligible for U.S. entry; tabulating and processing of various program and statistical data; and administering budget, fiscal, personnel and general services aspects of the program. Increasing attention is required for responding to inquiries from many sources, including the States on such matters as verification of registration, date of entry, etc. It is planned to make more thorough analyses and investigations of -- and to work toward resolvement of -- complaints and problems brought to the attention of program officials by individual refugees as well as groups representing refugee interests.

Simultaneous with the work undertaken by program staff to implement the welfare phaseout proposal will be the development of more definitive plans on phaseout policies in other elements of the program. Of particular concern will be the phaseout of school assistance to Dade County public schools and of the Miami refugee health clinic; considerable study and negotiation with other Federal offices as well as with State and County officials will be paramount to evolving the best possible plans in these all-important areas of education and health. The major thrust of staff effort in the welfare area will be intensified work with State/local welfare and employment agencies, and voluntary groups, to assure that suitable self-support opportunities are realized whenever possible for the refugees in the Miami area whose welfare assistance will be financed from this program in 1974 regardless of their length of time in the U.S. because there is no Statewide General Assistance Program in Florida and the local program cannot meet the needs of the large number of refugees in the General Assistance category.

Based on the assumption that no large influx of additional refugees into the U.S. will occur, some further decrease in staff, through attrition, should be possible in 1973. Thus, it is assumed that a net reduction of 10 more positions can be achieved, resulting in a complement of 75 positions by the end of 1973 and in 1974.

The resumption of the airlift in December 1972 increased the workload substantially and less than half of the goal of 10 positions to be eliminated in 1973 had been accomplished by February 1973. Considerable savings have been possible in items relating to care of the refugees (food, lodging, and related services) and additional savings will occur in 1974.

The elimination of additional positions in 1974 has not been planned because of staff requirements for directing various program activities, developing policy guidance, and carrying out the day-to-day work of maintaining essential program operations described above. The table below presents the pertinent position and man-year data for this activity for the three fiscal years. Since some turnover in positions in 1974 is projected, there are five fewer man-years (average employment) than positions.

	1972	1973	1974	Change
Positions (June 30).....	85	75	75	--
Average Employment.....	136	79	70	-9

Of the 75 positions for 1973 and 1974, 57 would be in Miami and 18 in Washington; this latter number includes 8 in central service staff offices of the Social and Rehabilitation Service providing such services as accounting, public information, general services (including contracting work) and personnel administration related to the Cuban Refugee Program.

Assistance to Refugees in the United States

Program Purpose and Accomplishments

Activity: Welfare assistance and services(Migration and Refugee Assistance Act of 1962, Public Law 87-510)

1973		1974		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$121,300,000	Indefinite	---	$70,300,000

State and local welfare agencies have been reimbursed 100 percent by the Federal Government for providing needy refugees financial assistance, essential medical care, and certain other related welfare services since inception of the Cuban Refugee Program in 1961. By the end of 1972, about 35,600 persons were receiving assistance in Florida, and about 55,000 persons in other States were receiving financial and/or medical assistance. Comparable estimates for June 30, 1973, of persons requiring assistance are 39,300 in Florida and 54,000 in other States.

A major change is expected to be made in this policy effective July 1, 1973. In general, the plan contemplates limiting reimbursements for assistance of this type under the Cuban Refugee Program to refugees who have been in the United States less than 5 years; the State's regular welfare program would be utilized for refugees in the U.S. over 5 years. It is anticipated that there would be some modification in this general policy to recognize unique situations such as in Florida where about one-half of the refugees in the U.S. reside. The estimates for fiscal year 1974 reflect the change in funding policy mentioned above, as well as the Federalization of the categorical public assistance programs for the Aged, Blind, and Disabled effective January 1, 1974, further reducing the number of persons aided under this program. It is estimated that 23,200 persons will be receiving assistance under this program in Florida and 22,500 for all other States combined on June 30, 1974; about 40 percent of each of these groups are expected to be eligible for only medical assistance under this program.

The new reimbursement policy on welfare is part of a total phaseout of the Cuban Refugee Program projected for completion by June 30, 1977; the welfare activity has comprised almost 85 percent of the total budget in recent years. Several factors led the Department to initiate this change in the welfare area commencing next July 1. It is anticipated the airlift from Cuba, which has been drastically restricted by the Cuban Government in the past year, will soon end. The 5-year residency policy is related to the minimum time for the refugee to have been in the U.S. in order to attain citizenship; it is believed this amount of time also is sufficient for the refugee to have overcome the most serious aspects of adjustment to this country; and refugees eligible for regular State public assistance programs are entitled to receive assistance from these programs regardless of citizenship status under a Supreme Court ruling. Moreover, many of those transferred to regular State welfare programs because of the 5 year policy, as well as many of the others, regardless of length of time in the U.S., will be eligible for the new Federalized program of Supplemental Security Income for the Aged, Blind, and Disabled (all Federally funded) to become effective January 1, 1974. And, finally, the 5-year policy was a commitment made to the Congress by the Department in response to a Congressional recommendation that "the Executive Branch exert every effort in bringing about the termination of this program as soon as a reasonably possible."

Assistance to Refugees in the United States

Program Purpose and Accomplishments

Activity: Resettlement (Migration and Refugee Assistance Act of 1962, Public Law 87-510)

1973		1974		
				Budget Estimate
Pos.	Amount	Authorization	Pos.	Amount
---	$1,300,000	Indefinite	---	$1,000,000

Through contracts with several voluntary non-profit agencies, refugees are provided a variety of services to assist them into the mainstream of U.S. living, including reception services for new arrivals, relocation to homes and jobs in areas other than Miami and post-resettlement services relating to emergencies, job placement, etc. In fiscal 1972, the voluntary agencies assisted 12,513 refugees to relocate out of the Miami area to other parts of the country.

During 1974, as in 1973, assistance will be provided new arrivals and relocations out of Miami will be undertaken when in the best interest of the refugee, but the primary emphasis by the voluntary agencies will be on providing day-to-day counseling services to the refugees and on helping them with post-resettlement problems and in emergency situations.

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Assistance to Refugees in the United States

Program Purpose and Accomplishments

Activity: Education (Migration and Refugee Assistance Act of 1962, Public Law 87-510)

1973		1974		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$16,000,000	Indefinite	---	$14,000,000

Selected training is provided to equip the refugees for employment. Through English and vocational training opportunities provided refugees in Dade County, Florida, there was a monthly average of about 3,000 refugees enrolled in English and 500 in vocational classes in 1972. For fiscal 1973, a drop-off of 10 percent is estimated and in 1974 a further drop of about 10 percent is projected.

Each year several training projects are undertaken to help refugees with professional backgrounds to receive sufficient training or reorientation to qualify them to follow their professions in the United States. This training relates to areas where there is a scarcity of qualified personnel such as Spanish teachers, physicians, and dentists. Between 300 and 400 refugees receive such specialized training each year through three or four universities throughout the country. Continuation of this type of training is projected for 1973 and 1974, but on a reduced scale in 1974 as the program begins a phaseout of this type of training.

An annual Federal payment is made to help meet part of the added cost related to refugee children in the Dade County, Florida, public school system. These payments have been according to a formula based on the number of children in the school system who arrived in the U.S. since late 1965 when the airlift started and who have not been in a U.S. school system for more than 5 years; there were approximately 23,500 such children in average daily membership (ADM) in fiscal 1972 and the comparable estimate for 1973 is about 22,000 children.

In 1974 this formula is expected to be discarded; the budget projects an overall decrease of 20 percent in assistance to Dade County Schools for 1974 compared with the 1973 amount estimated under the formula. This is being done in order to effect a more orderly phaseout of this cost than the formula would yield. The number of "formula" children is not decreasing as rapidly as expected and its continuation will not achieve a yearly phasedown that results in a progressive, orderly termination of all Federal assistance from the Cuban Refugee Program by the end of fiscal year 1977. It is contemplated a larger proportion of the funds each year will be earmarked for supplementary services directly related to the special needs of the Cuban children (Cuban teacher aides, special instructional materials, etc.) and a smaller portion for unearmarked general operating expenses of the school system.

Loans are made under this activity to needy college students: about 3,200 students received loans in 1972; for 1973 the estimate is about 3,000 students to receive loans and for 1974, 2,600. As part of the phaseout plan for student loans, schools have already been notified that for new borrowers loans will be limited beginning in the Fall of 1973 to only those students who are not eligible under the domestic loan programs because they do not have the immigration status of permanent resident.

Assistance to Refugees in the United States

Program Purpose and Accomplishments

Activity: Health Services (Migration and Refugee Assistance Act of 1962, Public Law 87-510)

1973		1974		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
- -	$4,000,000	Indefinite	- - -	$3,000,000

Through a clinic operated for the program by the Dade County Public Health organization, certain health services are provided to new arrivals and to needy refugees in Miami. These services include medical screening, examinations, X-rays, treatment, and provision of prescribed drugs. Arrangements are made through the clinic for out-patient services when necessary at local hospitals and for care of patients with tuberculosis and mental illness. Clinic services have been available to all those receiving welfare assistance in the Miami area through the Cuban Refugee Program since the early 1960's. New arrivals are given medical examinations upon arrival.

During fiscal 1972, the clinic provided over 34,000 services monthly (examinations, treatment, etc.), authorized about 38,000 out-patient care visits to local hospitals during the year and about 31,000 days of care in long-term tuberculosis and mental hospitals, and filled some 300,000 drug prescriptions.

The 1973 statistics are similar. For 1974, a very substantial change is expected in demands for clinic services as a result of a lawsuit making about one-half of patients formerly serviced by the clinic eligible for Medicaid services outside the clinic by private physicians, druggists, therapists, X-ray technicians, etc.; no reliable projection is possible of these same statistical data of the clinic for 1974. Over 15,000 needy refugees continue to be eligible for medical services only through the clinic. The extent to which those now eligible for services through Florida's medicaid program will in fact have to seek clinic services is unknown. Over $2,000,000 of the 1973 cost for this budget activity is salary related for clinic associated personnel. The 1974 estimate assumes a 25 percent reduction from the 1973 estimate will be achieved as the clinic operations adjust to the changed medical situation for Miami's needy Cuban refugee population.

Assistance to Refugees in the United States

Program Purpose and Accomplishments

Activity: Movement of refugees from Cuba (Migration and Refugee Assistance Act of 1962, Public Law 87-510)

1973		1974		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
---	$340,000	Indefinite	---	$50,000

This activity has provided for the cost of airlifting the refugees from Cuba. The annual number airlifted approximated 42,000 until fiscal year 1972 when interruptions in the airlift from time to time occurred; 17,624 refugees arrived via the airlift during fiscal year 1972.

Until December 11, 1972, there had been no flights during fiscal year 1973; the airlift resumed on December 11 and it is expected that 40 flights will occur, before another interruption, bringing 3,400 refugees into Miami. This should be accomplished by February 9, 1973. Based on what the Cuban Government has advised the State Department, some additional persons beyond the 3,400 are expected to be ready for departure on the airlift at a later date. It appears that there now remains only a small residual group who will be allowed to depart Cuba on future airlift flights. The budget assumes there will be a total of 75 flights in fiscal year 1973 and none in 1974. The $50,000 estimated for this activity for 1974 is based on an estimate provided by the State Department for close-out costs of Swiss Embassy staff in Havana who have been working on airlift matters.

Assistance to Refugees in the United States

Program Purpose and Accomplishments

Activity: Program Administration (Migration and Refugee Assistance Act of 1962, Public Law 87-510)

1973		1974		
			Budget Estimate	
Pos.	Amount	Authorization	Pos.	Amount
75	$2,060,000	Indefinite	75	$1,650,000

This activity provides for Federal direction and day-to-day operation of the program, including a variety of services for incoming refugees such as reception, feeding, lodging, etc.; helping other Cuban refugees in the Miami area as necessary; and continuing work on training and employment and on resettlement opportunities out of Miami for the refugees.

Average program staff was decreased from 170 in 1971 to 136 in 1972, to 79 in 1973, and a further decrease to 70 is projected for 1974. The total number of permanent positions is expected to be down from 158 in June 1971 to 75 by the end of fiscal 1973, with some further decrease in man-years projected for 1974. The resumption of the airlift in December 1972 increased the work-load substantially and less than half of the goal of 10 positions to be eliminated in 1973 had been accomplished by February 1973. Considerable savings have been possible in items relating to care of the refugees (food, lodging, and related services) and additional savings will occur in 1974.

The elimination of additional positions in 1974 has not been planned because of staff requirements for directing various program activities, developing policy guidance, and carrying out the day-to-day work of maintaining essential program operations. Considerable work must be undertaken on implementing the welfare phaseout and on development of phaseout policies in other elements of the program, for example assistance to Dade County public schools and the future of the Miami Health Clinic. Minimum staff capability must be available for such tasks as providing registration services, providing statistical and other program data, utilizing records of the Cuban Refugee Center to help States establish entry dates and other information pertaining to the welfare phaseout. Increasing attention is required for responding to inquiries from the general public, the Congress, and the refugees themselves; these inquiries can be expected to accelerate as the phaseout of the program gains momentum.

Mr. PASSMAN. Before getting into the questions, I would like to insert at this point in the record a letter that I received from our colleague, the Hon. Dominick V. Daniels, dated April 13, 1970, and also a letter received from Mr. Daniels dated March 6, 1973. Both of these letters are self-explanatory. I would like to have them placed in the record at this point so that the members may have the benefit of some of the problems confronting some of the people in Mr. Daniels' district.

[The information follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 6, 1973.

Hon. OTTO E. PASSMAN,
Chairman, Subcommittee on Foreign Operations, Committee on Appropriations, U.S. Capitol, Washington, D.C.

DEAR MR. CHAIRMAN: As a result of the migration of Cuban refugees to west New York, Weehawken and Union City, N.J., the local school systems continue to feel the intense pressure of Spanish-speaking children of Cuban refugees in local public schools. You may recall that we discussed and I wrote to you concerning this problem 3 years ago. A copy of my letter to you of April 13, 1970, is attached.

In past years the west New York and Union City school systems were reimbursed by the Office of Education pursuant to section B of Public Law 89–874, the so-called impact aid provision, although they received funds in fiscal year 1971 from the Cuban refugee program over which your subcommittee has jurisdiction. Because of the impoundment of section B funds in fiscal year 1973 and the failure of the administration to budget such funds for fiscal year 1974, I am asking that the west New York and Union City, as well as the Weehawken school systems be provided with funds authorized by the Migration and Refugee Assistance Act of 1965, as part of the Cuban refugee program of the HEW Social and Rehabilitation Service.

As you know, Dade County, Fla., already receives funds from the Cuban refugee program. The educational problems faced by West New York, Weehawken, and Union City are no different than those faced by Dade County. Indeed, I have been advised that if the measure of impact is taken to be the percentage of Cuban children in the schools, the two New Jersey communities suffer from a far greater impact than those of Dade County.

I would appreciate the opportunity to meet with you to discuss this matter more fully.

Warmest personal regards.

Sincerely,

DOMINICK V. DANIELS,
MEMBER OF CONGRESS.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., April 13, 1970.

Hon. OTTO E. PASSMAN,
Chairman Subcommittee on Foreign Operations,
House Committee on Appropriations,
U.S. Capitol, Washington, D.C.

DEAR MR. CHAIRMAN: This is in regard to our conversation of about 2 weeks ago during which you requested additional background information concerning the urgent situation which exists in two communities in my district in New Jersey; Union City and West New York. Your counsel indicated to my legislative assistant that this would be the appropriate time to furnish the information you requested in order that you might consider the matter in connection with the 1971 appropriation request for the Cuban refugee program.

In the school systems of the two communities, more than 50 percent of the pupils are of Spanish origin and most of them are Cuban refugees. Some of the children are totally illiterate.

I understand, for example, that in the September 1969 enrollment alone, several hundred Cuban refugees were registered for school. One child, 11 years

of age, was illiterate not only in the English language, but the Spanish language as well.

Some classes, which are large—composed of about 35–40 students— have children who are mostly of Cuban origin. Moreover, in the past few months the enrollment of children of Cuban refugees has steadily increased rather than leveled off, and projections indicate a continued increase.

The mayors of these communities, the school boards, and the school superintendents are vitally interested in providing a decent education to all of the children of the community. They are having great difficulty. I was advised recently that plans are being drawn for possible school closings.

In 1962, when the United States first experienced the influx of Cuban refugees, most of these people settled in Dade County, Fla. At that time we granted relief to Dade County because of the implication of the Federal Government in the flight of large numbers of Cubans from the tyranny and persecution of Castro's Cuba.

Since 1962, the influx of Cuban refugees has not diminished. What has changed however, is the location of their initial settlement as well as their resettlement from Dade County.

While many cities across the country have received large numbers of Cuban settlers, only a few communities, such as Union City and West New York, have experienced as great a concentrated impact on their school district.

In September 1969, the assistant superintendent of schools in Union City furnished me with statistics which indicated the impact these refugees have had on the school system. It is my understanding that, instead of leveling off, the number of refugees is still increasing. To quote the assistant superintendent:

"In 1965–66, the total population in our public schools was 11,752. In 1969–70, it is already 14,757. And we estimate that there will be almost 15,000 children in the schools of Union City and West New York by the end of the school year.[1] This represents an increase of more than 3,000 for both communities in 5 years.

"During this same period, 6,363 Cuban refugee children came to our schools. In the first year they only represented 17.3 percent of the total school population. Now 45.4 percent of the children in our communities are from Cuba.

"For every American-born child in Union City and West New York public schools, there is a Cuban refugee child sitting next to him in the classrooms.

"Overcrowding is the order of the day throughout the school buildings in both of our communities.

"Last year in Union City, 92 elementary classrooms carried enrollments of 30 and over, in many instances up to 39 in a single room.

"Among the children who have come to us from Cuba, our survey shows that 6,712 are enrolled in the schools of Union City and West New York. Of this number, just 776 or 12 percent have parents who are U.S. citizens. The other 5,936 children, or 88 percent, 9 out of 10 of the Cuban children, have parents who are refugee noncitizens."

Welfare statistics provide some additional insight into the problem. We have found that most of the refugees go on welfare for anywhere from 6 months or longer until they can become established. The Cubans are hard working and industrious and although they are able to get off the welfare rolls with greater alacrity than other poor, their contribution to the community, especially the school system is nowhere near sufficient to offset the expenditures made by the community for their education, health, and welfare.

The two communities are more than fulfilling their responsibilty of caring for these people under the Migration and Refugee Assistance Act. The Federal Government must do the same.

In view of the above information, Mr. Chairman, I most respectfully urge that you give this appropriation request your careful and sympathetic consideration.

Warmest personal regards.

Sincerely,

DOMINICK V. DANIELS.

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[1] This figure was reached in February 1969.

1973 ESTIMATE

Mr. PASSMAN. With respect to your program, Mr. Director, last year in a continuing resolution I think we provided $145 million.

Mr. PALMATIER. That is correct, sir.

Mr. PASSMAN. Could you give us an estimate at this time as to what portion will be obligated?

Mr. PALMATIER. Most of the $145 million, very close to all.

Mr. PASSMAN. Could you be a little more accurate? Are you going to obligate it all? Do you have any idea of what you will obligate?

Mr. PALMATIER. We feel on the basis of our expenditures so far and what we anticipate during the remainder of the year that we will obligate just about the entire amount.

Mr. PASSMAN. But it is undetermined at this time whether or not you will have any unobligated funds?

Mr. PALMATIER. Yes, sir.

Mr. PASSMAN. To be perfectly fair about the way we examine, we get all that the traffic will bear in some of these programs where we figure they should, in due time, be abolished. You are operating a little differently. Your expenses are pretty much fixed. We have a very positive agreement, and the cost is determined by the expenses that you had to incur based upon legislation.

Mr. PALMATIER. That's correct, and it's pretty well governed. Under the program as it operates now, as you well know, by the States spending the money first in behalf of Cuban refugees and our reimbursing the States for what they spent.

ESTIMATE FOR 1974

Mr. PASSMAN. This year your estimate is $90 million?

Mr. PALMATIER. Yes, sir.

AIRLIFT CESSATION

Mr. PASSMAN. You indicate the flights of the airlift are supposed to stop by the end of fiscal year 1973, with the complete termination of the entire program by June 30, 1977; is that correct?

Mr. PALMATIER. Yes, sir. As you know, the Cuban Government did begin to interrupt the airlift as early as August 1971. We feel, on the basis of information from the Department of State, Mr. Passman, which we understand in this instance has been based on information from the Government of Cuba, that we are in the last 10 flights now and the last flight to take place under the airlift will be this Friday, April 6.

Mr. PASSMAN. Then why are additional funds going to be requested when the airlift is supposed to stop at the end of fiscal 1973 with the complete termination of the entire program by June 30, 1977? You mean you are incurring expenses that will run for 4 years after the termination of the flights?

Mr. PALMATIER. Yes, sir, on a phased-down basis that we are starting, July 1, 1973, in recognition of congressional desires and our feelings too, that the program should be terminated. But we feel in order not to place too much of a burden on the States, who are going to have

to pick up a great deal of the costs, we should do this on a gradual basis, and 4 more years, frankly, is the number of years that we have chosen to do this in.

CUBAN ACHIEVEMENTS

Mr. PASSMAN. I wouldn't want to shock some of the witnesses and members of this committee by being complimentary of any aid program, but I don't necessarily think of this as an aid program. As I read the record, these Cuban refugees in many instances have made very good citizens. I know in the city of New Orleans they have a colony there of the Cuban refugees who refuse to accept any type of aid. They have built their own community, their own life. They are hard workers actually paying their own way and paying taxes. Are you familiar with that?

Mr. PALMATIER. Yes; I am.

Mr. PASSMAN. And some of our own citizens born and reared in Louisiana, who are perhaps a little bit too lazy to work, got angry at the Cubans, you understand, because they were making them look bad. You are also familiar with that, too, aren't you?

Mr. PALMATIER. I am.

Mr. PASSMAN. I want to be complimentary where I can. We are actually proud of some of them and what they are doing is a good example of taking people out of a country like Cuba and giving them an opportunity on their own. They are very appreciative of what they found here, they have taken full advantage of it, they are making good citizens, and there is very, very little crime among them.

Mr. PALMATIER. I think what you are saying, Mr. Passman, as has been my experience, is that the Cubans really believe in the American dream and they think this is a country where one can do what he wants to do and be what he wants to be, and they go out and do it.

Mr. PASSMAN. If they hadn't demonstrated that, I could have been just as ugly the other way. I want to commend them for really appreciating what we have offered them and in a great many instances taking full advantage of it.

FUNDS ADEQUACY AND AIRLIFT CONTINUATION

If the airlift continues past July 1, 1973, will you have to request additional funds?

Mr. PALMATIER. We might have to, Mr. Passman.

Mr. PASSMAN. But under the legislation you could operate out of whatever we provide, then come in for a supplemental later?

Mr. PALMATIER. That's right; but if I could just make one point clear, Mr. Passman. We feel that even should the airlift continue, and I think there is very, very little possibility of that happening, that we should still go into the phaseout; we may have to modify it a bit but we still think there are certain parts of this program that should be phased out, in recognition of the very fact you mentioned that so many of the Cubans at this point in time are taxpaying, contributing members of their community.

Mr. PASSMAN. I am trying to move along rapidly. The cost is fixed and we can't do anything about it. If we underfund, we have to give you a supplemental. If we overfund, it is just not spent.

NUMBER OF REFUGEES IN UNITED STATES

Could you tell the committee the number of refugees who have been brought into the country since the inception of the program?
tered a total of 450,485 Cuban refugees with the Cuban refugee program.

NUMBER OF ADULTS AND CHILDREN

Mr. PASSMAN. Could you break that down, the number of adults and the number of children?

Mr. PALMATIER. I can break it down, sir, on a percentage basis by age groups, not by men, women, and children. I could develop that for the record.

Mr. PASSMAN. I am just talking about adults and children. When does a person cease to be a child, at what age?

Mr. PALMATIER. We can use 18.

Mr. PASSMAN. All right, then how many adults would you say?

Mr. PALMATIER. Thirty-four percent have been between the ages of 0 and 18.

Mr. PASSMAN. The 66 percent is what?

Mr. PALMATIER. That would be the adults, age 19 and over.

NUMBER ON WELFARE AND NUMBER WORKING

Mr. PASSMAN. The question would be what percentage of the adults are employed?

Mr. PALMATIER. Of the some 450,000 we have registered, we currently have on welfare about 91,000, which would mean that 2 out of 10 are not self-supporting.

Mr. PASSMAN. Eighty percent are self-supporting?

Mr. PALMATIER. Yes, sir.

WELFARE GROUP MOSTLY UNEMPLOYABLE

Mr. PASSMAN. Of the 20 percent, are they senior citizens and sick people?

Mr. PALMATIER. About 50 percent of that number would be persons 65 years of age and above who are on welfare. Of the other 50 percent, about 25 percent would be in AFDC-type situations, women alone with children, and about 25 percent would be in what is known as the general assistance category of welfare.

Mr. PASSMAN. Not 25 percent of the grand total but 25 percent of the 20 percent which in reality is 5 percent?

Mr. PALMATIER. Yes. Some of them one makes employable all the time by doing remedial operations, giving them some vocational and language training, and the others, frankly, have physical conditions and the like which do make it difficult for them to work, or they would be working.

Mr. PASSMAN. Plainly stated, those are unemployed or unemployable on account of age or illness?

Mr. PALMATIER. For physical reasons.

Mr. PASSMAN. Those who are able to work, you would say possibly 95 percent or higher, actually go to work?

Mr. PALMATIER. Yes, sir.

Mr. PASSMAN. And they are contributing to the economy rather than extracting from the economy?

Mr. PALMATIER. They certainly are.

CRIME AMONG THE CUBANS

Mr. PASSMAN. With respect to crime among the Cuban refugees, what has your experience been?

Mr. PALMATIER. Of course the largest community of Cubans is in Miami, Fla., and while there are about 300,000 there, the local police officials and others still state that while Cubans are sometimes involved in crime, they still don't commit enough of the crime in the area to occur as a statistic.

Mr. PASSMAN. To disturb the statistics?

Mr. PALMATIER. They don't even appear as a statistic.

Mr. PASSMAN. Let's not understate or overstate it. Would you say as a whole there is less crime percentagewise among the Cuban refugees than a similar class of people in the community?

Mr. PALMATIER. Yes, sir; the records indicate that.

Mr. PASSMAN. Clearly?

Mr. PALMATIER. Yes, sir; they certainly do.

SHIFT OF "PHASED OUT" REFUGEES TO OTHER PROGRAMS

Mr. PASSMAN. Is it not true that while this particular program may terminate, the obligation to aid these Cuban refugees will remain but be handled by other agencies?

Mr. PALMATIER. That is correct, sir. Those needy Cuban refugees who must seek help with their daily living requirements, including medical care, are eligible for State programs on the same basis as U.S. citizens and other lawfully admitted aliens. When the new Federal Supplemental Security Income Program for the Aged, Blind, and Disabled starts in January 1974, Cuban refugees will be eligible for it.

ADDITIONAL FUNDS MAY BE NEEDED IF AIRLIFT RESUMED

Mr. PASSMAN. What do you estimate your appropriation request would be if the airlift were to continue after fiscal year 1973?

Mr. PALMATIER. It would depend, of course, Mr. Chairman, on a number of things, for example, the number transported, the age, medical condition, or other handicaps found among the new arrivals. Certainly we would have to reexamine the estimate in light of such a development, based on whatever information the Department of State could provide on some of the above-mentioned factors. The additional cost could range from several thousand to several million dollars if the airlift were to resume in fiscal 1974.

APPROPRIATION REQUESTS TO DECREASE ANNUALLY

Mr. PASSMAN. I assume you anticipate that the appropriation requests will decrease each year until the program is terminated on June 30, 1977, is that correct?

Mr. PALMATIER. Yes, sir; the end of the airlift, coupled with the phaseout plans we have outlined, means our budget requirements should decrease substantially each year until the final termination date of June 1977 projected for the program.

PERCENT OF APPROPRIATION FOR WELFARE AND MEDICAL ASSISTANCE

Mr. PASSMAN. Most of the request will be used to reimburse States for welfare and medical assistance to needy refugees. Please tell the Committee what percent of the fiscal year 1974 request is needed for this purpose?

Mr. PALMATIER. It would be about 81 percent.

REACTION BY STATES TO PHASEOUT PLANS

Mr. PASSMAN. In the justifications you state that "Beginning next July (July 1, 1973) reimbursement from the Cuban program will no longer be available for those refugees who have been in the United States 5 years or longer; their needs will be met from the regular Federal/State/local public assistance programs." Could you tell the committee what effect this has on the States and what has been their reaction to this policy?

Mr. PALMATIER. The States will have an opportunity to formally indicate their reaction in the near future when the regulation is published in the Federal Register. We previously advised States of the anticipated phaseout policy and several States in which there are substantial numbers of Cuban refugees indicated their opposition to the phaseout. Against the background of increasing costs of financial and medical assistance in recent years, they indicated concern about a shift from a fully federally funded program to Federal-State shared cost programs or the State/locally financed general assistance programs. Some State responses indicated, however, their understanding of the reasoning behind a gradual phaseout after 5 years' residence and thought that the policy was timely; some indicated that since the Federal Government was responsible for admitting the refugees, it should continue to be fully financially responsible for their welfare needs as long as they remain aliens. Much of the State share of the cost for those transferred to other programs will disappear in January 1974 when full Federal funding for basic maintenance assistance to the aged, blind, and disabled becomes effective.

Excluding the Cuban refugee program expenditures, our estimate is that the total amount to be assumed by the Federal Government in fiscal 1974 would be about $40 million, and the State and local share would be approximately $30 million, of which about $6 million is estimated for Florida and $24 million for other States combined.

Mr. PASSMAN. When the program terminates on June 30, 1977, and you still have some Cuban refugees on the rolls, who have not been in this country for 5 years, who will be responsible for paying their public assistance?

Mr. PALMATIER. Most of those receiving welfare from the Cuban Refugee program on June 1977 who would not yet have completed 5 years residence are expected to be those who arrived during fiscal year 1973; this number should be very small since only 50 airlifts are expected to occur during fiscal year 1973. Many of these recently airlifted persons are known to be 65 years old or older now and will be

eligible for the new SSI program next January; States would be responsible for the small residual caseload that might remain regardless of their length of time in the United States—just as for other aliens admitted through immigration procedures.

NUMBER OF CUBAN REFUGEES IN THE UNITED STATES, AND REGISTERED WITH THE PROGRAM AND PERCENT ON WELFARE

Mr. PASSMAN. How many Cuban refugees do we presently have in the United States?

Mr. PALMATIER. It is estimated that approximately 600,000 Cuban refugees have come to the United States since Castro's takeover of Cuba in 1959.

Mr. PASSMAN. How many of these refugees have you registered under your program?

Mr. PALMATIER. As of March 31, 1973, a total of 451,069 refugees had registered under this program since January 1961.

Mr. PASSMAN. How many refugees do you estimate will enter the United States in fiscal year 1973?

Mr. PALMATIER. Our budget assumes a total of 8,000 refugees will register with the program during fiscal year 1973. As of March 31, 1973, a total of 5,919 had registered during this fiscal year. The registration information is the only firm data we have on new arrivals; there are refugees who never reach Miami and therefore do not register with the program.

Mr. PASSMAN. What percentage of the total number of refugees registered are now on the assistance rolls?

Mr. PALMATIER. It would be 20 percent, sir.

NUMBER OF CUBANS WHO ARE SELF-SUPPORTING

Mr. PASSMAN. Please provide an updated comparison like that which appeared on page 470 of last year's hearings showing the number of refugees who are self-supporting.

Mr. PALMATIER. Yes, sir.

[The information follows:]

CUBAN REFUGEE PROGRAM

[Number of persons registered with the program, number welfare assistance and services, and the number and percentage self-supporting in relation to the number of registrations]

	Number of registrations	Number on welfare	Total number self-supporting	Percent of registrations self-supporting
June of:				
1961	29,628	13,756	15,872	53.6
1962	122,212	55,084	67,128	54.9
1963	165,596	53,170	112,353	67.9
1964	172,572	32,110	140,462	81.4
1965	177,599	21,588	156,011	87.8
1966	207,147	19,882	187,265	90.4
1967	250,519	29,346	221,173	88.3
1968	290,353	39,370	250,983	86.4
1969	332,692	52,740	279,952	84.1
1970	379,229	66,178	313,051	82.5
1971	426,167	77,700	348,467	81.8
1972	445,150	90,747	354,403	79.6
1973 estimate	453,150	93,300	359,850	79.4
1974 estimate	[1] 457,150			

[1] Due to the phaseout beginning July 1, 1973, comparable information beyond fiscal year 1973 can no longer be constructed since neither the States nor the Social Security Administration will report welfare caseloads separately for refugees.

CUBANS HELP EACH OTHER

Mr. PASSMAN. Do other Cuban refugees in the United States try to help their fellow Cubans when jobs or assistance are needed upon arrival?

Mr. PALMATIER. Yes, the Cuban families are closely knit and very loyal. The whole family feels a high sense of responsibility for every member. This is ordinarily expected within the immediate family but with the Cuban refugees it applies to cousins, uncles, aunts, and in-laws. They assist in providing housing; in sharing clothing and furniture; in sharing available transportation; in finding employment for the relative, and in other ways.

CUBANS ARE GOOD CITIZENS

Mr. PASSMAN. I have read many favorable articles about how Cuban refugees have made favorable contributions to the U.S. economy. Is it not true these people are hard working and an asset to the United States?

Mr. PALMATIER. You are certainly correct. The Cuban refugees have worked hard. As I indicated earlier, some 80 percent of them are fully self-supporting. Many of them immediately after arrival have taken jobs which are more menial than would be usual in terms of their training and experience in Cuba. This applies in particular to those who were doctors, lawyers, dentists, or other professionals in Cuba. They start from scratch with no resources other than their determination to make a go of it. They have gone to night school to improve their English or to improve their skills. Those in the professions, often with assistance from the program, have undergone the retraining necessary to pass State board examinations and become accredited or licensed to practice. Mr. Chairman, it has become outmoded to talk about the old American virtues of the work ethic and Horatio Alger and lifting one's self by his own bootstraps, but the Cuban refugees have given the United States a present-day demonstration that these virtues are still alive. The Cubans are an asset to the United States in many ways.

The economic stimulus of the enterprises initiated by Cubans in Dade County has been reported to this committee on prior occasions: the expansion of the garment industry in Miami; the shift of the locus of international trade with Latin America to Miami; the expanded role of Miami in international banking transactions with Latin America; the employment and taxes generated as a result of enterprises initiated by the Cubans. There are many reports out of Florida that attest to the hard work and initiative and stimulus of the Cuban refugees in that State. The same reputation for hard work and initiative exists in Los Angeles, New Orleans, Chicago, Portland, Takoma Park, Newark, New York City—wherever the Cuban refugees have resettled.

Mr. PASSMAN. Would you say that the Cuban refugees make good citizens and are generally law-abiding people?

Mr. PALMATIER. I certainly would. As I mentioned earlier, I believe the refugees have been law-abiding with few exceptions. They also participate in positive ways in the political and social life of their communities.

CUBANS COME TO THE UNITED STATES BY MEANS OTHER THAN AIRLIFT

Mr. PASSMAN. When the airlift stops, do you think some Cuban refugees will continue to enter the United States? If so, how will these refugees reach the United States?

Mr. PALMATIER. Throughout the course of the Cuban refugee situation, there have been refugees who entered the United States by means other than the airlift. Some have come by small boat; others, through third countries. There has, for example, been a continuing movement of Cuban refugees from Spain to the United States and from Mexico to this country.

CUBANS IN OTHER COUNTRIES

Mr. PASSMAN. Do other countries provide assistance to these Cuban refugees and allow them entry into their nation?

Mr. PALMATIER. Cuban refugees have gone to a number of other countries where they have been permitted entry and where many have settled—principally Latin American countries and Spain. Although the numbers who have gone to other countries are known to be in the thousands, no reliable figures exist as to the total. Nor do we have information as to what assistance the various countries have provided.

While many Cubans have gone to other countries, the refugee movement has been primarily to the United States, reflecting the close ties Cubans have felt historically with our Nation and also, during the airlift years, the fact that the newly arriving refugees have had close relatives here.

CUBANS RETURNING TO CUBA

Mr. PASSMAN. Have any Cuban refugees returned to Cuba after living in the United States?

Mr. PALMATIER. We understand that approximately 600 persons have requested permission to return to Cuba, and that they have been mostly aged persons with family members still in Cuba. Some additional Cubans are believed to have returned to Cuba through third countries, but the number is thought to be very small.

TOTAL PROGRAM COSTS

Mr. PASSMAN. What has been the total cost of this program since it started?

Mr. PALMATIER. With our request of $90 million for 1974, the total cost since 1961 is $955.7 million.

IMPACT OF NEW SSI PROGRAM

Mr. PASSMAN. On page 5 of the justification you indicate that the establishment of a new Federal welfare program for the aged and disabled which takes effect January 1, 1974, has resulted in decreased costs to the program. Would you please explain this program and indicate how it affects the costs?

Mr. PALMATIER. Yes, sir. Public Law 92-603, the Social Security Amendments of 1972—the bill we referred to as H.R. 1 last year—was

enacted October 30, 1972. It established a new Federal program of "supplemental security income for the aged, blind, and disabled" effective January 1, 1974. This program replaces the federally matched Federal/State programs of old-age assistance, aid to the blind, and aid to the permanently and totally disabled—programs which have existed for many years. Costs, including administration, will be entirely Federal and the Social Security Administration of the Department of Health, Education, and Welfare will administer the new program. It will pay a monthly maximum of $130 to an eligible individual and $195 to an eligible couple without other resources for basic maintenance needs. Some States may choose to supplement these amounts with their own funds. Federal matching for the discontinued programs has ranged from 50 to 83 percent among the States, depending on the State's per capita income. It is estimated at least $20 million in Federal funds in fiscal 1974 under the SSI program may be expended on behalf of the needy aged and disabled Cuban refugees found eligible for the new program. The new Federal program is applicable to all the States and the District of Columbia.

INCREASES IN AVERAGE MONTHLY COSTS

Mr. PASSMAN. On page 20 of the justifications, I note in a number of cases the average monthly costs per person has been on the rise for a number of activities. Is this the result of inflation?

Mr. PALMATIER. That is undoubtedly one of the factors, sir, particularly in the medical area. Also, some States have improved their programs in terms of coverage, including unmet needs. Another factor in our 1974 estimate is that those refugees remaining with the program—that is, those in the United States less than 5 years—are likely to have fewer resources than the older residents, which is a consideration that States must recognize in determining payment levels.

VOLUNTARY RESETTLEMENT AGENCIES

Mr. PASSMAN. Under the resettlement activity on page 21, would you please list the voluntary nonprofit agencies you have contracts with at this time?

Mr. PALMATIER. The four voluntary agencies are the United States Catholic Conference, Church World Service (Protestant), United HIAS Service (Jewish), and the International Rescue Committee (nonsectarian).

IMPACT AID FOR SEVERAL NEW JERSEY SCHOOL SYSTEMS

Mr. PASSMAN. I have a letter from one of my colleagues which expresses concern over the recent impoundment of impact aid funds. Apparently he has several school systems that have felt a large impact from the influx of Cuban refugees and now the administration is cutting back on the impact aid funds where these school systems should normally receive funds. The school systems involved are West New York, Union City, and Weehawken, N.J. If I am not mistaken two of these areas were under the Cuban refugee program at one time before they were included in the impact aid program. Since the impact aid funds have been cut back a suggestion was made to include

funds in this program to take care of the problem. Do you know offhand what sort of impact the Cuban refugees have had on these three communities?

Mr. PALMATIER. The Office of Education has provided information indicating that under the eligibility requirements of Public Law 874, as amended, an estimated 36 percent of the pupils in average daily attendance (ADA) in the West New York schools are Cubans, and that the comparable figures are 35 percent for the Union City schools and 17 percent for Weehawken.

Mr. PASSMAN. What is your thinking on this problem?

Mr. PALMATIER. The Union City and West New York schools were assisted only during 1 year through the Cuban refugee program; that was in fiscal year 1971. Other assistance to these schools in relation to refugee pupils was made under the Cuban refugee provisions included in Public Law 91-230 which was enacted April 13, 1970. The Weehawken school system had not reached the 20-percent refugee ADA required in order to be assisted under those provisions.

No funds are included in the refugee program budget request for fiscal 1974 for assistance to the New Jersey schools, and the Department's present thinking is that no additional responsibilities should be undertaken by the Cuban refugee program since we are entering a phaseout period.

Mr. PASSMAN. Are any funds at all budgeted in fiscal year 1974 for impact aid?

Mr. PALMATIER. The Office of Education has advised us that there is no direct funds request for school impact aid for fiscal year 1974 in their budget but that the special education revenue sharing proposal would include funds related to children who reside on Federal property.

Mr. PASSMAN. What will these communities do if these impact aid funds are cut off?

Mr. PALMATIER. I believe, Mr. Chairman, that these communities will have to seek additional State or local funds to meet educational needs if their presently anticipated State-local funding plus Federal revenue sharing is not sufficient.

REPAYMENTS OF COLLEGE LOANS AND AMOUNTS OUTSTANDING

Mr. PASSMAN. Are the college loans that were made to the Cuban refugees being paid back in a timely manner?

Mr. PALMATIER. Yes, sir; as I indicated earlier, we consider the delinquency rate low.

Mr. PASSMAN. How many loans are presently outstanding?

Mr. PALMATIER. The Office of Education, that administers this part of our program, reports that loans outstanding as of December 31, 1972, totaled about $28.3 million, that $2.9 million had been repaid, and that $0.4 million was delinquent.

STAFF REDUCTIONS

Mr. PASSMAN. Why have you not been able to reduce your staff in fiscal year 1974 when the program has been cut back rather substantially?

Mr. PALMATIER. Mr. Chairman, the budget did project 9 fewer man-years of employment in 1974 than the 1973 estimate. However, since preparation of the budget and with the announcement that the airlift appears to be definitely ended, we are now working to effect a cut that results in 15 fewer positions than estimated as of June 30, 1973, and this cut would, of course, carry over to 1974. If we achieve this, our staffing level will be down to 60 employees instead of the 75 shown in the budget for this year. This means in the 2-year period between July 1971 and July 1973, total Cuban refugee program staff will have been reduced by 108. Throughout 1974 we will continue to examine our workload to determine, and to effect, any additional cuts in staff that seem indicated.

Mr. PASSMAN. Mr. Shriver?

Mr. SHRIVER. Thank you, Mr. Chairman.

RELATIVELY LOW NUMBER ON WELFARE IS COMMENDABLE

Your figures show that of the nearly 450,000 Cuban refugees who have registered since the beginning of the program, more than 80 percent are fully self-supporting, taxpaying, contributing members of their adopted communities. I think this reflects considerable credit on the program, the Social and Rehabilitation Service, upon you and the States and communities which are involved, and the refugees themselves.

PHASEOUT PLANS

Under the proposed phaseout, when does your office intend to cease to exist?

Mr. PALMATIER. The end of 1977.

Mr. SHRIVER. That would be the end of the fiscal year 1977?

Mr. PALMATIER. Yes.

Mr. SHRIVER. The one possible exception to this termination would be in Florida, where the general assistance type cases might have to be continued. Is that correct?

Mr. PALMATIER. No, sir, that is not quite correct. We plan on totally phasing out the program in 1977 but we are starting the phaseout the beginning of fiscal 1974 by not providing any more assistance to the States for any Cuban refugee who has been in the United States 5 years or more. We are making an exception on the 5-year residency policy at the beginning date in Florida, for the following reason:

We have 12,000 or 13,000 Cuban refugees in Miami under the so-called general assistance caseload. That is a tremendous number of one particular category to be in one community. The reason for the entire phaseout is we are trying to find some orderly way to integrate them into regular ongoing programs without the impact being too great on the local communities and States involved because they are going to have to put some money into this thing.

Well, you have this situation in Miami today where you have this relatively large general assistance caseload. We feel it would be just too much of a sharp impact to implement the total 5-year policy there on July 1 of this year, so we are making the exception there. We have committed ourselves to working as closely as we can with the

Dade County authorities, too, during the 5-year period, to somehow get more training, get more employed, do anything we possibly can, so when we finally phase out in 1977 there will really be, we hope, very, very few who are on general assistance in Dade County.

The other side of the coin is that a lot of the refugees on the general assistance caseload in Miami are between 60 and 65 years of age, and a lot of them really can't work. By 1977 they will have reached the age where they can be integrated in the program for the aged.

DADE COUNTY SCHOOLS—REFUGEE IMPACT FUND

Mr. SHRIVER. On page 6 of your statement you talk about the phase down as it relates to the Dade County public school system which has been receiving impact assistance from this program. You are not talking about the general impact school aid?

Mr. PALMATIER. No, sir, we are not.

Mr. SHRIVER. You are talking about assistance directly from your program and this appropriation?

Mr. PALMATIER. That's correct.

Mr. SHRIVER. Because the impacted school aid is being proposed for phaseout this year all over the country as far as the B students are concerned, as I understand it.

WELFARE COSTS OTHER THAN IN CUBAN REFUGEE BUDGET

While this program is being phased out, you say $70 million in medical costs and welfare will be funded by other programs, $40 million from Federal programs, $30 million from State and local resources. Federal costs will go up in subsequent years as the supplementary security income provisions of H.R. 1 go into effect?

Mr. PALMATIER. That is correct.

Mr. SHRIVER. Would you detail then for the record the sources of these funds by program?

[The information follows:]

The $70 million mentioned as welfare costs, including medical care, that is expected to be required for needy Cuban refugees in fiscal year 1974 from programs other than the Cuban refugee program includes the following:

1. Federal funds—$40 million.—$20 million is estimated as the Federal share of the regular public assistance programs administered by the States under titles I, IV, X, XIV, XVI, and XIX, of the Social Security Act. Twenty million dollars was estimated for the new Federal program of supplemental security income for the aged, blind, and disabled (SSI) to become effective January 1, 1974, under a revised title XVI of the Social Security Act. The Federal/State programs of old-age assistance, aid to the blind, and aid to the permanently and totally disabled, formerly operated under titles I, X, and XIV (or XVI) of the act, are, in effect, repealed in the 50 States and the District of Columbia with commencement of the SSI program. The Federal/State matching programs of aid to families with dependent children and medicaid (titles IV and XIX of the Social Security Act, respectively) will continue.

2. State/local funds—$30 million.—This estimate includes the non-Federal share of the categorical public assistance programs operating under the several titles of the Social Security Act mentioned above and funds for those refugees in the so-called "general assistance" programs who are needy but do not meet the definitions of the federally aided programs; general assistance programs are funded entirely with State/local resources.

COMPARISON OF 1973 FUNDS REQUEST AND AMOUNT AVAILABLE

Mr. SHRIVER. You requested for fiscal 1973 $161 million.

Mr. PALMATIER. That is correct.

Mr. SHRIVER. And under the continuing resolution you received $145 million?

Mr. PALMATIER. Right.

Mr. SHRIVER. How did you absorb the cut of $16 million?

Mr. PALMATIER. No. 1, we anticipated, based on our estimates regarding the airlift, that we would receive about 100 more flights in fiscal 1972 than we actually received, so we didn't have the number of people in 1973 that we thought we were going to have.

Second, a small part of the monthly financial payments totaling about $6 million is being met through Florida's regular public assistance program. I will tell you how that happened.

You will recall, Mr. Shriver, the State of Florida had consistently paid Cubans a little less in the form of a cash assistance payment than they had to other people on welfare in Florida. They felt this was equitable, and so did we, because the Cubans, after all, were receiving surplus commodities and also they had use of our medical clinic.

Then as a result of the *Graham-Richardson* Supreme Court decision, which in effect said that States could no longer have a citizenship requirement as a bar to receipt of welfare for an alien, the State of Florida was sued and it had to put the Cubans—as well as other eligible aliens—on the regular welfare rolls, with an increase in payment.

The Court decision indicated, in effect, that any difference between funds made available from the Cuban refugee program and the cost that resulted from the increased payments to refugees that Florida had to make, should be made up by the regular programs. The legal people decided that eligible refugees could have part of their money payment made available from the regular Federal-State public assistance programs, and that is what happened.

The third thing is that we plan on providing the Dade County public school system in Florida $1 million less than had previously been anticipated.

ACCURACY OF FUNDS ESTIMATE

Mr. SHRIVER. You mention the difficulty in coming up with specific budget requests for this program due to the many variables involved in the phaseout and the unknown effects of court decisions and H.R. 1. Would you say it is probable that you might have to come back for more money for fiscal 1974? Would any excess funds automatically revert to the Treasury?

Mr. PALMATIER. Mr. Shriver, we were confronted with an unusual number of unknown elements this year. Our request for $90 million continues, however, to represent our best judgment as to the funding level we will require in 1974 if we are to carry out the program we have outlined and meet our commitments to the States. If there are excess funds, they do revert automatically to the Treasury.

REDUCTION OF STAFF IN 1973 AND 1974

Mr. SHRIVER. Your anticipated staffing level for fiscal 1974 is unclear. In your statement you mention a reduction to 60 employees by this July 1—the justifications on page 39 mention a reduction to 70 by the end of fiscal 1974. What is the situation?

Mr. PALMATIER. This comes about partly because of timing, Mr. Shriver. When we prepared the justification several months ago we did not have definite information on what date the airlift would end. When the April 6 termination date was made known, we immediately began a review of our total workload and staffing requirements. As I indicated in my statement, we have not been achieving the staff reductions we had anticipated through attrition, so a reduction in force has now been planned to take effect in June of this year which will result in reducing our onboard staff to 60 by this June 30—15 less staff than the budget anticipated when we thought the airlift might continue into June. This reduction will, of course, carry over into 1974, and it is now our best estimate of the approximate manpower level required for 1974. As we gain experience under our phasedown in welfare and other areas. however, we will be continually reviewing our needs to determine, and to effect, further reductions if they are indicated. Actual dollar savings in 1974 due to the forced staff reductions are expected to be relatively small. The average grade of staff working in this program is GS–6 and those separated in late June 1973 will be entitled to severance pay for various lengths of time in fiscal 1974 which will offset much of the budgetary salary costs.

AIRLIFT CLOSEOUT COSTS FOR SWISS EMBASSY

Mr. SHRIVER. You are requesting $50,000 for "closeout costs" of Swiss Embassy staff in Havana who have been working on airlift matters. Why does it take that much to stop doing something?

Mr. PALMATIER. This estimate was provided by the Department of State. As we understand it, these costs are similar to expenses incurred when our Government employees are no longer needed—for example, salaries continue until the affected employee can be transferred, terminated, or perhaps retire. There are always such tasks as records disposal, final reports, and such matters involved in closing down an operation. Also, there will be transportation costs back to Switzerland for some of the Swiss nationals who have been working on airlift matters.

MEDICAID COSTS VERSUS MIAMI HEALTH CLINIC COSTS

Mr. SHRIVER. Concerning your health services, you point out that under medicaid these services will cost considerably more than they have under your in-house clinic program. Compare those respective costs for us briefly now, and submit the details for the record.

You really have no choice in this switch because of the court decision, is that correct? Since you say on page 37 you have no data on which

to base your health services request, how did you arrive at the 25 percent reduction request?

Mr. PALMATIER. Mr. Shriver, the information we have is based on an analysis by welfare staff in Florida from which they made some rough estimates of the additional costs for providing those medical care services formerly performed by the clinic that will now be covered through medicaid provisions. These costs were projected for the 7-month period December 1972 through June 30, 1973, utilizing data from the regular domestic medicaid program in Florida with some modifications for clinic usage by those refugees considered eligible for medicaid. The additional cost for that 7-month period that the State would expect to incur under medicaid for an estimated average eligible caseload of 18,875 was $2.3 million. A simple annualization of this 7 months, estimate would yield almost $4 million. We have estimated that comparable cost in 1974 as about $5 million because of trends in the medical area. For example, there are over 20,000 refugees now eligible for medicaid provisions and the number is growing, so there is a larger eligible caseload than that used; some price increases will occur in 1974; and the unpredictability of medical requirements—we know, for instance, there was an unusual high percentage of recent airlift arrivals aged and infirm who will require continuing medical attention—call for some upward adjustment.

You understand, of course, that under the phaseout not all of these additional costs apply to this program, since Florida's regular medicaid program for eligible refugees in the United States over 5 years will have to be utilized. Also, two large items of medical care, hospitalization and nursing homes, are not affected by the changeover from the clinic to medicaid.

The major cost items due to medicaid usage that would expect to shift from the clinic, as developed by Florida for the 7-month estimate of almost $2.3 million, are: Drugs, $1,025,000; mental health, $155,000; physicians' costs, $500,000; outpatient facilities, $300,000; and other items (X-rays, lab work, administrative costs, etc.), $310,000.

We do not have a direct comparison of these itemized costs with those incurred by the clinic, but, in the drugs area alone, the clinic's total annual cost has been about $500,000 for the entire eligible caseload of some 35,000 refugees, compared to the 7-month medicaid cost of over $1 million for some 18,000 persons for drugs. The clinic, of course, purchases its drugs from the Veterans' Administration at its cost.

Mr. Shriver, not only has Florida committed itself to the court to place eligible refugees under the medicaid provisions, but HEW medicaid staff has also informed the State that Cuban refugees eligible under Florida's approved medicaid State plan under title XIX of the Social Security Act must be covered by provisions of that plan.

The 25-percent reduction in the 1974 estimate for clinic-related services represents our best judgment on these costs and reflects the following considerations: Although something over half of the clinic's eligible caseload may be shifted to medicaid, there cannot be a completely parallel cut in staff or funds since minimum services in the various units—dental, psychiatric, diagnosis, and treatment by general practitioners—must be maintained for the large caseload that will continue

to use the clinic. Moreover, there will be some increases in staff salaries and related costs that will offset savings. Our statement meant to indicate that we do not have precise estimates on the adjusted usage of various elements of the clinic. We are now engaged in developing plans in cooperation with State, county, and U.S. Public Health officials to adjust staff and services to accommodate to the new situation as soon as possible.

CUBAN REFUGEES ENTERING UNITED STATES THROUGH THIRD COUNTRY

Mr. SHRIVER. You say you expect new refugees from Cuba to enter the United States through third countries "in some volume." Tell us more about that.

Mr. PALMATIER. Ever since the Cuban refugee movement began, there have been refugees who reached the United States via third countries, although most have come here directly—by commercial flights prior to the missile crisis in 1962, by small boats, and by the refugee airlift after it began in December 1965.

As of December 1972, it was estimated that there were about 26,000 Cuban refugees in Spain who wish to come to the United States, and about 4,000 in Mexico who want to come to this country.

For planning purposes, we have estimated that we expect about 4,000 registrations during fiscal 1974. That would be less than half of the total number of Cuban refugees who can be expected to arrive from third countries; however, many of these refugees are not expected to reach Miami and therefore not to register with this program.

PHASEOUT OF STUDENT LOAN PROGRAM AND REFUGEE ELIGIBILITY FOR NEW BASIC OPPORTUNITY GRANT PROGRAM

Mr. SHRIVER. Student loans for Cuban refugees are to be phased out, and this fall, only those who are ineligible for domestic loan programs because of their immigration status will qualify for these special loans. You are proposing $2.6 million for this, which will allow 2,600 borrowers to obtain an average loan of $1,000. That still leaves a good deal of money to come up with. Do you know if these students are eligible for the new basic opportunity grants program?

Mr. PALMATIER. We have been informed by the Office of Education that Cuban refugees are eligible for that program since they are in the United States for "other than a temporary purpose." It should be noted, too, that the Cuban loan program will not accept any new borrowers beginning in September; only present borrowers will be continued in order not to interrupt their education.

CUBAN PROGRAM CANNOT BE CONSIDERED FOREIGN AID

Mr. PASSMAN. I think it would be quite appropriate to state for the record that even though the Cuban refugee program is handled under the Foreign Operations Subcommittee on Appropriations, that it should be divorced from foreign aid as such.

Do you concur? I don't want to overstate nor understate the case.

Mr. PALMATIER. The money is spent here in the United States.

Mr. PASSMAN. That doesn't make any difference whether it is spent

here or not. It is not actually foreign aid because no funds are sent abroad, no commodities go abroad, and the very fact is that we have established for the record that 80 percent of these people are self-supporting, they are integrated into the economy, they are hard workers, and some of them are substantial taxpayers; is that correct?

Mr. PALMATIER. It certainly is.

CONTRIBUTIONS OF CUBANS VERSUS WELFARE COSTS

Mr. PASSMAN. Again let's not overstate the case. Let's be perfectly fair to these people who look to this opportunity. They have found an opportunity and taken full advantage of it, and when you finally integrate all of these people into America, if still 80 percent of them are self-employed, contributing to the economy, are paying taxes, would not that contribution far offset 20 percent who may be supported by the States by welfare?

Mr. PALMATIER. I think that is stated very well.

Mr. PASSMAN. It can be established that these distressed people who are in our country are actually going to prove to be an asset rather than a liability.

The crime statistics certainly speak very favorably of these people. I make that statement because I want to divorce it from foreign aid. I am not a foreign-aid enthusiast. As far as I am concerned, foreign aid doesn't contribute a dime to this country. It is a one-way street, but this is actually a two-way street.

Mr. Bevill?

REFUGEE PROGRAM SHOULD REMAIN IN FOREIGN-AID BILL

Mr. BEVILL. Thank you, Mr. Chairman.

Mr. Chairman, may I ask on that point, can we as a subcommittee make a separate bill out of this?

Mr. PASSMAN. No. This is like a Louisiana mulligan; you put some chicken in, a raccoon in, a couple of possums, sweet potatoes, turnips, cook it for a couple of hours and it is all mixed up. That is the way of this bill. You don't write a separate bill. The good is in with the bad. I have elaborated too much; I should have just said "no."

1974 REQUEST; PHASEOUT REASONS AND PLANS

Mr. BEVILL. You are seeking an appropriation of $90 million; is that correct?

Mr. PALMATIER. That is correct.

Mr. BEVILL. And this program is to be phased out over 5 years. Is this the first year of this phaseout?

Mr. PALMATIER. Fiscal 1974 will be the first year that we begin reducing payments to States for welfare; the 5-year period actually started with fiscal 1973 when we put States on notice regarding the phaseout.

Mr. BEVILL. Because that is the year that the new welfare setup goes into effect.

Mr. PALMATIER. And the airlift is now ended.

Mr. BEVILL. Why?

Mr. PALMATIER. The reason given by the Cuban Government, Mr. Bevill, is that Mr. Castro doesn't want to let any more out. It is as simple as that.

Mr. PASSMAN. I am going to ask Mr. Yates to preside, if he will, the rest of the afternoon.

Mr. BEVILL. And this goes into effect, I believe, the beginning of the new fiscal year.

Mr. PALMATIER. July 1, 1973; that is correct.

Mr. BEVILL. This year.

Mr. PALMATIER. Yes, sir.

Mr. BEVILL. Is this a complete phaseout of this program, or is it just this particular operation?

Mr. PALMATIER. The phaseout of welfare funds begins July 1, 1973, and then we expect to be totally out by June 1977. The plan calls for a gradual withdrawal of Federal money in other areas also, but welfare costs that we formerly had been reimbursing the States for at 100 percent has by far the largest impact. With a total termination date of ficsal year 1977, our appropriation should be going down very rapidly over the next 4 years.

Mr. BEVILL. That is all I have.

Mr. YATES. Mr. Conte.

WELFARE PHASEOUT AND SHIFT TO OTHER PROGRAMS

Mr. CONTE. You state that Florida would be exempted from the head of the family welfare reimbursement phaseout for those who have been in the United States for over 5 years. You also state that approximately one-half of the refugees are in Florida. How many of the refugees are in New York, and what will the impact on the phaseout be in New York?

Mr. PALMATIER. I am not sure we have that with us.

Mr. BAKER. New York has almost 13,000 refugees now on welfare. Some 80,000 have been resettled there. New York itself says about 80 percent of its caseload has been in the United States over 5 years. This was a rough estimate and frankly we think it is on the high side.

Mr. CONTE. That would be 80 percent of 13,000.

Mr. BAKER. About that.

Mr. PALMATIER. But the majority of these people, Mr. Congressman, you understand, already qualify for one of the regular ongoing federally matched public assistance programs. The arrangement we have had in this program—and you were on the committee before and you probably recall—is that we have been reimbursing 100 percent rather than using the matching formula programs, and now we won't continue funding for those in the United States over 5 years under the phaseout.

Mr. CONTE. That doesn't mean they are going to get off the public dole.

Mr. PALMATIER. That is right, it certainly doesn't.

Mr. CONTE. This money is just going to come out of a different pocket.

TOTAL COST OF CUBAN REFUGEE PROGRAM

How much have we spent on this program since its inception?

Mr. PALMATIER. Almost $1 billion, including fiscal 1974 funds.

WAIVER OF 5-YEAR RESIDENCY POLICY FOR "GENERAL ASSISTANCE" TYPE CASE IN FLORIDA

Mr. CONTE. How many individuals will be assisted in Florida by the Federal Government during fiscal 1974 as a result of the exception of Florida from the cutoff?

Mr. PALMATIER. There will be about 12,500 to 13,000 persons who are in the so-called general assistance program; but less than half of these have been in the United States more than 5 years and they are the only ones covered by the exemption. I will tell you the reason we have the exception in Florida, Mr. Conte. As you know, half of the Cubans who come to the United States have remained there, and those who have remained in Florida have remained principally in Miami, Dade County. Of the some 91,000 refugees who are on welfare throughout the United States, over 40 percent are in Miami, Dade. The State of Florida has no statewide general assistance program, and the refugees on general assistance don't qualify for the matching programs. Since about 50 percent of the general assistance people in Miami have been in the United States 5 years or more, they would be immediately affected. We frankly don't think it is fair to dump that much of a burden from one day to the next on one county in the United States. It is for this reason we have the exception.

NUMBER OF REFUGEES ELIGIBLE FOR SSI PROGRAM

Mr. CONTE. How many of the refugees will be eligible for assistance under the new federalized program for supplementary security income for the aged, blind, and disabled under Social Security Amendments of 1972?

Mr. PALMATIER. About 50 percent, sir, or some 45,000 of the 91,000 now on welfare.

POSSIBILITY OF AIRLIFT RESUMPTION

Mr. CONTE. You said the airlift is being terminated. Is there any possibility this airlift will be started again?

Mr. PALMATIER. It could always happen. You will recall how it happened before. Mr. Castro started the sealift which led to an airlift by President Johnson in order to get some type of order in the thing to stop the loss of life which occurred in the Florida straits. We had conversations with the State Department on this and we really feel that the Cuban Government is ending it and has no plans to resume it. The last flight as a matter of fact will be this Friday, April 6.

Mr. CONTE. I imagine you will have a full load for that flight. I don't know how you handle this. They are a lot better off coming over here and receiving support under our program than they are staying in Cuba.

Mr. PALMATIER. I don't think there is any question about that; they are voting with their feet. They are getting out of there as rapidly as they can.

MOST REFUGEES ARE SELF-SUPPORTING

Mr. CONTE. You state, and I know the chairman asked you some questions along this line, the vast majority of the refugees become members of the mainstream of American life and that they are taxpaying citizens. How does the number of refugees who do not fit in this category compare with the general population in the United States on a percentage basis.

Mr. PALMATIER. I don't quite understand the question.

Mr. CONTE. I am referring to the ones who don't get into the mainstream of American life.

Mr. PALMATIER. We were just discussing that. If you take the entire universe that we have dealt with, only about two out of ten Cubans in the United States now require any help at all. This was a refugee movement. It was not screened for physical conditions, educational background and the like, so we feel that this statistic alone clearly points out that the overwhelming number are taxpaying, contributing members of their community in the United States. Two out of ten to us is a fantastic statistic.

SHIFT FROM MIAMI CLINIC TO MEDICAID FOR SOME REFUGEES

Mr. CONTE. Do you have any estimates or any indications as to what the expected fiscal impact of the shift of the refugees to medicaid will be?

Mr. PALMATIER. In Florida?

Mr. CONTE. Yes.

Mr. PALMATIER. We expect that it will cost for fiscal 1974 about $5 million more than it would have cost had we been able to continue to use the clinic for the group eligible for medicaid. But once again the State of Florida was required to put them on medicaid because of court action.

CUBAN PROFESSIONALS

Mr. CONTE. I used to ask a lot of questions about professionals. Do you have any statistics on how many Cubans came over and still maintain their profession?

Mr. PALMATIER. Not statistics. I would say this. A lot has changed since the time you were on the committee. You will recall at that time it was almost impossible, for instance, for a Cuban physician to practice in the United States. Then over a period of time with the assistance from the AMA and pressure from the American communities which didn't have enough doctors, a lot of things were relaxed. As a result of that, most of the doctors who came, some 2,500, are now practicing in the United States. Other areas—for instance, New Jersey, some of the New England States, Florida—have relaxed considerably on permitting former schoolteachers to teach again here, to be certified. Many of the lawyers have gone into like professions—they are teaching, working in law libraries, working for legal firms, particularly in the

Miami area, because so much has happened down there in the past few years with respect to trade with other Latin American countries; it has really become a gateway to Latin America.

I wouldn't want to say that all of them have been able to practice their professions. There are accountants here, for instance, who were CPA's there, that have had great difficulty. Optometrists, veterinarians, a lot of them have not been able to use their professions. You may recall also, that we had a large number of professional people coming here at a time when we had a great shortage of teachers, and we developed teacher training projects throughout the United States and retrained many of them as teachers, particularly teachers of Spanish in the elementary schools. A lot of the professional people are still in professions but not necessarily the ones they were in.

REASONS FOR REDUCING FUNDS FOR TRAINING

Mr. CONTE. Why are the student loans and professional, English, and vocational training being cut back.

Mr. PALMATIER. Professional training is the area I was just discussing—retraining programs for professional people. In the last couple of years we haven't had the large number of professional people coming out of Cuba. On the vocational training we won't have the welfare caseload or the influx of new refugees that we had. We are reducing student loans because, once again, we think this is an area where the time has come to begin phasing out.

We have taken care of the majority of the young Cubans who came, during a time when it was very difficult to get loans. They now qualify for the regular loan program, and we think new borrowers should use it rather than have a continuation of a special program solely for Cuban refugees.

INCREASED EMPHASIS ON SELF-SUPPORT

Mr. CONTE. You say that you have plans to intensify the staff effort to assure greater self-support opportunities for the refugees through the State, local and the voluntary organizations. How do you plan to do this?

Mr. PALMATIER. As we go into this phaseout, we recognize that there are going to be some people who will just be dropped unless we can do something for them, and we plan on continuing to use the voluntary agencies who assisted us in the resettlement program to do that. There are people who may get lost in this grand shuffle of a phaseout, and we want to retain the capacity to pick up the individual case, who might only need a remedial operation or might benefit from some additional vocatitonal training. This is what we are referring to.

Mr. CONTE. Thank you very much, Mr. Chairman.

Mr. YATES. Mr. Long.

HIJACK AGREEMENT

Mr. LONG. Will the anti-hijacking agreement concluded between the United States and Cuba affect Cuban refugees arriving in the United States by boat?

Mr. PALMATIER. Mr. Long, I am with HEW of course. I am not involved with foreign policy. I really don't know all the thinking on the hijacking agreement. I am of the opinion that it may not affect the person who steals a small boat or takes a small boat and uses it to escape to the United States. I think what they are referring to would be seizure by a would-be refugee of a commercial fishing boat or something of that type that would be more closely related to an airplane, something like that.

Mr. LONG. Where there would be violence or use of weapons?

Mr. PALMATIER. Yes, but this is a personal opinion. I want to make it clear that I am not an expert on the hijacking agreement.

Mr. LONG. The agreement wouldn't have the effect of our denying asylum to such people?

Mr. PALMATIER. I think not.

ABILITY, MOTIVATION, AND SELF-SUPPORT

Mr. LONG. You say that about 8 out of 10 refugees registered with the program are fully self-supporting today?

Mr. PALMATIER. That is correct.

Mr. LONG. Does that include all Cuban refugees or just those who are currently registered?

Mr. PALMATIER. The State Department figures that about 600,000 Cuban refugees have come to the United States since Fidel Castro took over. Of that number about 450,000 have registered with us. You may recall that during the very early days of the refugee influx to the United States, many of those who came had banking accounts here, had business associations here, and they never required any help at all. Thus they never registered with us, so when I speak of the 2 out of 10, my universe is only those who have registered with us.

To make it more positive, one would add the others too who have never asked us for any help at all.

Mr. LONG. Is there any evidence that these refugees are self-supporting because of your program, and not simply because they are very high quality people?

Mr. PALMATIER. I think it is a combination of both. We have people ask from time to time, "Supposing we gave an organization a bloc of money and attempted to use it with some of our own disadvantaged people here." I am not too sure that you would be as successful, because frankly, by and large, we have gotten the cream of the crop.

Mr. LONG. Highly motivated people.

Mr. PALMATIER. Yes, many with business backgrounds, professional backgrounds. I think where the United States was very astute was in picking these people up, working with the church groups, and helping them get resettled so that they had some type of sponsor, they had housing at the other end, they had a job at the other end.

NEED FOR THE CUBAN REFUGEE PROGRAM

Mr. LONG. Did the United States have to get into the act at all?

Mr. PALMATIER. Oh, yes, there is no question about it.

Mr. LONG. We have had so many waves of immigration to this

country who had it hard, it is true, but who nevertheless adjusted, and often did very well in many cases because of the hardships that they went through.

Mr. PALMATIER. Was it necessary? I don't know about that, but I do know you had this massive number of people coming to Miami, Fla., during a very, very short period of time, and at that time in Miami, 1960–61, it had the highest unemployment rate in the United States. It was almost 10 percent. There were just no jobs available, and you had the choice of attempting to help these people where you could to get out of Miami, to rebuild meaningful lives for themselves, or else just starve to death on the streets of Miami. I think it was positive, I really do.

PERCENT OF CUBANS THAT HAVE COME TO UNITED STATES

Mr. LONG. What percentage of the population of Cuba has come to the United States as refugees? You mentioned 450,000.

Mr. PALMATIER. That is the number this program registered. About 600,000 have come to the United States. They have about 8 million people in Cuba.

Mr. BAKER. It would be about 7 percent.

Mr. LONG. That is really something. It would be very difficult to find any other modern emigration it would seem to me that matched this.

Mr. PALMATIER. That is true, and it occurred, in a relatively short period of time.

Mr. CONTE. Would you please yield, Doctor?

Mr. LONG. Certainly.

POSSIBILITY OF REFUGEES RETURNING TO CUBA

Mr. CONTE. What percentage do you think would return if Cuba again became normal?

Mr. PALMATIER. If it were totally liberated?

Mr. CONTE. Totally liberated.

Mr. PALMATIER. I don't know. When I discuss this with my many Cuban acquaintances, I become more confused. A large number of them are, of course, becoming American citizens as rapidly as they can. They are so emotionally involved in this country. They have always looked north, I suppose, because we controlled Cuba at one time, and many Cubans have gone to school here, and so forth. I think you would probably have a large number who might go back immediately for emotional and other reasons.

Mr. LONG. Have any gone back at all?

Mr. PALMATIER. About 600 applied to go back. These are mostly aged people who might have a son or daughter in Cuba with children. They are old people.

Mr. CONTE. Of course, if they go back after becoming American citizens, as most of them will have done by that time, then they could have it both ways. They could live both here and in Cuba.

Mr. PALMATIER. I really think, even though it might be difficult for a Cuban himself to say this, particularly to another Cuban, I think many of them would go back right away to see it, their old home and so on.

Then I really think a large number would turn around and come back again because they have rebuilt their lives here.

IMMIGRATION PATTERNS

Mr. LONG. You know in the great days of our immigration before World War I, when people were coming here at the rate of 1 million or more a year, you always had a situation in which about one-third of them were going back. About one person was going back for about every two or three who were coming over. That is a reverse migration that has never been fully understood. Of course life was very hard here because we didn't have welfare programs. I am wondering to what extent we got a much bigger immigation from Cuba simply because of this program that we would not have gotten if we hadn't been so hospitable?

Mr. PALMATIER. I think there is no question that we got more people, but I believe we got most people principally because it became a Communist dominated country. After all, it did enjoy one of the highest standards of living in the Western Hemisphere. People traveled back and forth all the time between this country and Cuba.

AVERAGE INCOME OF CUBANS IN THE UNITED STATES

Mr. LONG. Has anybody gathered any data on what the average income level of the adult Cuban refugee is now, and how this compares with what it was when they were in Cuba?

Mr. PALMATIER. I am not sure one could make a valid comparison just on the basis of dollars, Mr. Long, because so much time has elapsed, and you know the dollar was different there, but the Census Bureau in its study which they completed last year showed the average family income of persons of Spanish language in Dade County—that would be mostly Cubans—was about $8,000 a year. Nationwide data for Cubans is not available.

Mr. LONG. This was the 1970 income census data?

Mr. PALMATIER. Right.

Mr. LONG. How did that compare with the non-Cuban population of Florida.

Mr. PALMATIER. If one is discussing minority groups, if one wants to use that term, I think it was about $1,000 more.

Mr. LONG. It sounds to me as if it would compare very favorably with the majority group.

Mr. PALMATIER. It was very close. About 62 percent of all the doctors who were practicing medicine in Cuba in 1959 are now in the United States. There are many highly paid in this group alone.

EXISTENCE OF PROGRAM HURT CASTRO

Mr. LONG. Wouldn't it be possible to argue that this is one of the most effective programs in sabotaging Castro that you could have come up with? You took some of the most highly motivated people away from him.

Mr. PALMATIER. No question about that.

Mr. LONG. At a time when he was trying to adjust to a new system.

Mr. PALMATIER. Some people speculate that this might be the very reason that he decided to stop the outward movement of people.

Mr. LONG. Did he ever try to put an emigration tax such as the Russians are putting on the Jews?

Mr. PALMATIER. Not to our knowledge; no. We have some statistics we can submit for the record, broken down by professional, semi-professional, clerical and sales, skilled persons, and so on, but I do remember some. For instance, only 2 percent of the refugees have come from the farming-fishing area of the Cuban economy, while 6 percent have been professionals.

PERCENT NATURALIZED

Mr. LONG. What percentage of these have become American citizens, or applied for citizenship?

Mr. PALMATIER. In excess of 100,000 are now American citizens.

Mr. LONG. Are now full-fledged American citizens?

Mr. PALMATIER. Yes.

Mr. LONG. Of course they have to file their first papers. Do you have any information on what percentage have done that?

ADJUSTING IMMIGRATION STATUS TO PERMANENT RESIDENT

Mr. PALMATIER. In recent years it has averaged about 20,000 a year. Here is the whole story. You know the Cubans are all paroled into the United States, and until 1966 they could not adjust their status from that of a parolee to a permanent resident without physically leaving the United States, and you could not start on your 5 years without being a permanent resident, so there was a long period when it was impossible for them to do anything.

Then in 1966, when Congress placed the numerical limitation on the Western Hemisphere for immigration, it recognized this problem, and made it possible for the Cubans to adjust their status without physically leaving the United States.

It also gave them up to 30 months retroactive credit for time spent in the United States. So it wasn't until 1966, really, that refugees could start applying for citizenship and become citizens in any volume. They have to be here 2 years, by the way, before they can apply to adjust their status from that of a parolee to a permanent resident, so the evidence is that they are becoming American citizens as fast as they have an opportunity to do so.

CHILDREN BORN IN UNITED STATES OF CUBAN PARENTS

Mr. LONG. Are you counting those who have been born in this country and are therefore native born?

Mr. PALMATIER. No.

Mr. LONG. How many have been born?

Mr. PALMATIER. We don't have any idea.

Mr. LONG. It must be a considerable number.

Mr. PALMATIER. It has to be.

Mr. LONG. Are they prolific?

Mr. PALMATIER. They are family oriented.

Mr. LONG. That is quite different.

Mr. PALMATIER. They have the normal number of children, I believe.

Mr. LONG. It is not greater or less?

Mr. PALMATIER. The average Cuban life style is very similar to the average American, with the exception that at this point in time perhaps they haven't lost this family focus to the extent that some of us have.

AGE DISTRIBUTION

Mr. LONG. What is the age distribution among them? They are much more heavily weighted toward the older people than the U.S. population, aren't they?

Mr. PALMATIER. No; on the airlift only 12.3 percent of all those who have come in have been 61 years of age and above. The rest have been below that.

Mr. YATES. Those statistics ought to be put in the record, and without objection, it is so ordered.

[The information follows:]

OCCUPATION AND AGE CATEGORIES OF AIRLIFT ARRIVALS (AS OF FEB. 28, 1972)

	Percent	Ages	Percent
Professional, semiprofessional, managerial	6.0	0–5	10.0
Clerical and sales	11.2	6–18	24.0
Skilled	9.0	19–29	8.5
Semiskilled	4.2	30–39	19.2
Service occupations	3.2	40–49	15.5
Farm-fishing	2.1	50–60	10.5
Children, student, housewives	64.3	61–65	4.3
		Over 65	8.0

CHILDREN THAT LEFT CUBA

Mr. LONG. It is quite possible that that would be true, but also there would be not too many children. Do many children come over?

Mr. PALMATIER. A lot of children came over. As a matter of fact, during the early days of the program when it was very difficult to get out of Cuba, and during the time when commercial transportation was still available but not to take everyone out who wanted to come—and I think this is a great tribute to the confidence the Cubans had in the American people—about 13,000 children were just put on airplanes and sent out by their parents. They were afraid that they would be shipped later to Czechoslovakia or Russia for their education.

Mr. LONG. I am sure you are familiar with our early immigration. Typically the person who came here was a young person in his late teens or twenties or so. They left their families and children home and sent for the women later, and so the population tree was very asymmetrical. This wasn't true of the Cubans.

Mr. PALMATIER. No.

STATUS OF TWO RECENT ARRIVALS

Mr. LONG. Recently I believe two men arrived in Florida by boat from Cuba to seek asylum. Are these two men still in the United States, and if so what would be the administration's policy?

Mr. PALMATIER. I didn't hear the first part of the question.

Mr. LONG. Recently I have been told that two men arrived in Florida by boat from Cuba to seek asylum. Are these two men still in the United States, and if so, what will be the U.S. policy toward them?

Mr. PALMATIER. I think, sir, in the past several weeks more than two have arrived. Some have arrived on small boats, rowboats and so forth, very small craft, and undoubtedly they will be granted permission to stay.

I think what you may be referring to—and once again I am not in the State Department and not really involved—is the case where several members of the crew of a Cuban fishing boat did use arms on a boat that ended up in Key West. This may be the case you are referring to. There has been great interest in this.

Mr. LONG. In that case we pretty near have to send them back under any kind of a reciprocal agreement with Castro.

Mr. PALMATIER. It is my understanding that the case is before the courts now. I believe the charge at this point is entering the United States without having gone through customs inspection.

Mr. LONG. What does that mean? Do they put them in jail or send them back to Cuba?

Mr. PALMATIER. I think they are on parole right now.

Mr. LONG. What is Castro's policy going to be? Is he going to take the view that if he sends our criminals back who grab U.S. planes and hijack them we have got to do pretty much the same thing.

HEW NOT INVOLVED UNTIL CUBANS GRANTED ASYLUM

Mr. PALMATIER. Sir, I can't really be responsive to questions of this type. In HEW we are not involved with the refugees until they are granted political asylum in the United States. All other aspects are handled by the Department of State.

Mr. LONG. I think that would be a very interesting question for us.

Mr. PALMATIER. It is, sir. I don't know the answer because I am not involved.

STUDENT LOANS

Mr. LONG. What about our loans to the Cubans? Have they been paid back? This question has probably been asked but if it was, I wasn't here.

Mr. PALMATIER. I think through this year we have made approximately 15,000 loans to college students under our loan program. Of that number, about 484 are delinquent.

Mr. LONG. What about past loans of various kinds?

Mr. PALMATIER. These are the only loans we have ever made.

Mr. LONG. Educational loans are the only ones you have made.

Mr. PALMATIER. Yes, sir.

Mr. LONG. And only this year?

Mr. PALMATIER. No, since the inception of the program.

Mr. LONG. Since the inception of the program you only have a few hundred delinquent currently.

Mr. PALMATIER. No, we have made 15,000 loans, and 484 are delinquent.

Mr. LONG. In the whole period?
Mr. PALMATIER. That is correct.
Mr. LONG. I thought you meant just this year.
Mr. PALMATIER. No, sir.
Mr. LONG. What does that mean as a practical matter? Do you have a long grace period?
Mr. PALMATIER. It is patterned exactly after the National Defense Education Act. They have to start paying back 1 year after they finish school.
Mr. LONG. How many of them are there whom you would expect to pay back the loans? What is that 484 compared to what you would expect?
Mr. PALMATIER. I think it is very, very low.
Mr. LONG. Out of the 15,000 loans that are due.
Mr. BAKER. 8,000 loans are still not in the collection process.
Mr. LONG. You have about 7,000 in the collection process?
Mr. BAKER. Correct.
Mr. LONG. Of that you have 484 delinquent?
Mr. BAKER. Yes.
Mr. LONG. That is about 1 out of 14. That would be somewhat higher, wouldn't it, than you would run into in the rest of the population?
Mr. PALMATIER. It is lower than the experience they find in the domestic loan program.
Mr. LONG. By delinquent you mean what? You can't get it from them or they have missed payments?
Mr. PALMATIER. They have missed payments; some of them we may not be able to get.
Mr. LONG. Are these secured loans?
Mr. PALMATIER. They are secured only in the sense that they sign an agreement.
Mr. LONG. There is no security?
Mr. PALMATIER. No.
Mr. LONG. Theoretically you catch up to them some day.
Mr. PALMATIER. They do. There is a monitoring process constantly.
Mr. LONG. Thank you very much.
Mr. YATES. Mr. Miller.

PHASES IN THE REFUGEE INFLUX INTO THE UNITED STATES

Mr. MILLER. How do we go about finding out who is a refugee from Cuba?
Mr. PALMATIER. One has to divide the entire Cuban refugee program into three parts to answer that question. First, between 1961 and the time of the missile crisis when commercial transportation was cut out, almost anyone could come to the United States and ask for political asylum after he arrived here.
Then between October 1962 and December 1, 1965, all of the arrivals from Cuba came via a small boat, raft, inner tubes, what have you. A few came through Mexico and Spain and then asked for political asylum here.
In late September 1965 Mr. Castro made a major foreign policy speech in which he said he was tired of being criticized for not letting people out of Cuba, and that anyone in the United States who had

relatives in Cuba who wanted to come down by small boat to get them could do so. Great chaos resulted from this. It was like Dunkirk in reverse. Thousands of boats took off from Miami for Cuba to pick someone up. The loss of life was so heavy that as an initial response President Johnson asked the Coast Guard to put up a picket line to intercept the small boats coming in. These people were granted political asylum.

To get order into the chaos, he directed the Department of State to negotiate an agreement, called a Memorandum of Understanding, with Cuba which made it possible for people who wanted to leave that country, and whom this country would accept after security screening and so on, to come. This is when the airlift started.

Since that time about 260,000 people have come on the airlift which is due to terminate April 6.

Mr. MILLER. That is what I understand.

AIRLIFT ELIGIBILITY

Let's assume an individual would like to move from Cuba to the United States. How would they go about applying to be a passenger on the airlift?

Mr. PALMATIER. First they had to apply to the Cuban Government for permission to leave Cuba. They had to have a relative in the United States. If Cuba agreed to release them, they sent the name to the United States via the Swiss Embassy which represents this country in Cuba. After the name was processed by appropriate U.S. Government agencies—and if they found no reason from a security point of view why the person should not enter—the name was sent back down to the Swiss Embassy and they turned it over to the Cuban Government and said the United States would accept this person.

SWISS REPRESENT UNITED STATES IN CUBA

Mr. MILLER. There is $50,000 in the budget, as I understand, to pay the employees of the Swiss Embassy.

Mr. PALMATIER. Who have been involved in the airlift operation. We transfer the money to the Department of State, and they in turn use it as part of the funding arrangement they have with the Swiss Embassy who represents U.S. interests in Cuba.

Mr. MILLER. I was wondering whether that Cuban need go to the Swiss Embassy to make application to be a passenger on the airlift?

Mr. PALMATIER. No. The Cuban Government turned the names over to the Swiss Embassy of the ones they were willing to let out and the Swiss forwarded the names to the United States through State Department channels.

MEDICAL ASSISTANCE FOR REFUGEES

Mr. MILLER. I understand the U.S. Government is responsible for medical assistance to these refugees for 5 years. Is that what I read?

Mr. PALMATIER. You read that in a sense, Mr. Congressman. To date, the way this program has operated is that the Cuban refugees have had an opportunity if they fall on hard times or can't make it to go to the

public welfare agency in the community in which they reside. If it is determined that they are needy within the definition of need in that State, they are put on the refugee assistance program, including medicaid if they qualify.

What you are talking about on the 5-year thing is this: Beginning July 1, 1973, we plan on phasing out this program by June 1977. It means that for a refugee who has been in the United States as of that date, for example, for 5 years or more, we will not reimburse the States 100 percent for the assistance they provide him. The State may receive funds under the regular matching formula programs. When we talk about providing medical assistance for a 5-year period, what we really mean is that we will also reimburse the States from this program for what they expend on a Cuban refugee who has been in the United States no more than 5 years.

CUBANS RETURNING TO CUBA

Mr. MILLER. Do you have any record of any refugees who have come from Cuba to the United States and then returned to Cuba?

Mr. PALMATIER. About 600 have applied through the Czech Embassy to return to Cuba. This is the statistic we have obtained. They have been, according to State and Justice, principally, old people who just want to go home. The Cubans do have large families since they consider cousins as "family," and in a lot of instances the families are split. They might have a son that came to the United States or a daughter who had children here, and they might have left someone like that behind in Cuba whom they want to see and might apply to go back.

NUMBER OF REFUGEES IN FLORIDA

Mr. MILLER. Are the bulk of the refugees still in Florida?

Mr. PALMATIER. About 50 percent of all of those who have come to the United States.

Mr. MILLER. Where else have they spread out? At one time we had some legislation on the floor as I recall attempting to appropriate money to encourage resettlement from Florida into other States.

Mr. PALMATIER. Right.

Mr. YATES. I have some in my district.

REFUGEES NOT IN FLORIDA CONCENTRATED IN FIVE AREAS

Mr. PALMATIER. About half of those who have gone out of Florida have gone in turn to about five areas. Although they are all over the United States including Alaska, they have mainly gone to New York, New Jersey, California, Illinois, Louisiana, and Massachusetts. They are States where there are heavy concentrations, but nothing compared with the some 250,000 or 300,000 who have remained in Florida.

Mr. YATES. Thank you.

SCREENING OF REFUGEES

Mr. LONG. Were there many who came over who were suspect for subversive reasons; that is, who were sort of hiding among the refugees to cause trouble?

Mr. PALMATIER. A screening takes place. Unless you are talking about people who come over by small boat or something like that, they were prescreened before they were ever given authority to get on the airplane by appropriate U.S. agencies.

Mr. LONG. Have we ever had any trouble with any of them being Communists?

Mr. PALMATIER. They have turned down people; yes.

Mr. LONG. Have you gotten anybody that actually came who turned out to be a problem?

Mr. PALMATIER. Not to my knowledge, but I wouldn't necessarily know.

Mr. LONG. If it was, it was a small number?

Mr. PALMATIER. Yes.

Mr. YATES. Thank you.

The committee stands adjourned until 1 p.m. tomorrow.

WEDNESDAY, APRIL 4, 1973.

ACTION—PEACE CORPS

WITNESSES

WALTER C. HOWE, JR., ACTING DIRECTOR OF ACTION
DONALD K. HESS, ASSOCIATE DIRECTOR OF ACTION FOR INTERNATIONAL OPERATIONS
NICHOLAS W. CRAW, ASSOCIATE DIRECTOR OF ACTION FOR CITIZENS PLACEMENT
EMERSON MARKHAM, DIRECTOR OF BUDGET DIVISION, ACTION

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
Direct programs:			
1. Training	11,130	13,143	14,860
2. Volunteers	28,966	34,416	30,026
3. Program support	32,341	33,283	32,115
(Share of agencywide support costs)	(12,973)	(13,058)	(12,656)
Total direct program	72,437	80,842	77,001
Reimbursable program	130	100	100
Total obligations	72,567	80,942	77,101
Financing:			
Receipts and reimbursements from: Non-Federal sources	−130	−100	−100
Unobligated balance lapsing	63		
Budget authority	72,500	80,842	77,001
Budget authority:			
Appropriation	72,500	81,000	77,001
Transferred to other accounts		−158	
Appropriation adjusted	72,500	80,842	77,001
Relation of obligations to outlays:			
Obligations incurred, net	72,437	80,842	77,001
Obligated blance, start of year	24,748	15,841	14,404
Obligated balance, end of year	−15,841	−14,404	−14,709
Adjustment in expired accounts	−4,554		
Outlays	76,790	82,279	76,696

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Personnel compensation:			
Permanent positions	8,107	8,036	7,932
Positions other than permanent	2,953	3,471	4,229
Other personnel compensation	40	38	38
Special personal services payments:			
Employees	458	427	425
Volunteers and trainees	19,076	22,541	20,767
Total personnel compensation	30,634	34,513	33,391
Personnel benefits:			
Employees	1,105	1,146	1,164
Volunteers	1,109	1,394	1,381
Benefits for former personnel	6	7	8
Travel and transportation of persons	9,891	11,325	11,239
Transportation of things	320	182	213
Rent, communications, and utilities	1,682	2,037	1,859
Printing and reproduction	51	60	107
Other services	11,798	13,389	11,163
Supplies and materials	2,188	2,712	2,921
Equipment	756	1,056	945
Inservice claims and indemnities	54	63	54
Total program obligations	59,594	67,884	64,445
Administrative expenses (share of agencywide administrative costs—see separate schedule)	12,973	13,058	12,656
Total obligations	72,567	80,942	77,101

PERSONNEL SUMMARY [1]

Total number of permanent positions	749	749	741
Full-time equivalent of other positions	2	2	2
Average paid employment	787	746	737
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	4.6	4.6	4.6
Foreign Service staff	6.9	6.9	7.0
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	$19,042	$19,204	$19,456
Foreign Service staff	$10,427	$10,531	$10,624
Average salary of unenumerated positions	$6,992	$7,186	$7,380
Average salary of ungraded positions	$3,857	$3,995	$4,241

[1] Excludes personnel for administrative support.

AFTERNOON SESSION

Mr. PASSMAN. The committee will come to order.

We shall continue our examination of the different aspects of foreign aid this afternoon. The request before the committee at this time is that of the Peace Corps. We have as the main witnesses, Walter C. Howe, Jr., Acting Director of ACTION; Donald K. Hess, Associate Director of ACTION for International Operations; Nicholas W. Craw, Associate Director of ACTION for Citizens Placement; and Emerson Markham, Director of Budget Division, ACTION.

I would assume, Mr. Hess, you are the main witness.

Mr. HESS. Yes.

Mr. PASSMAN. You have a statement you would like to make to the committee?

Mr. HESS. Yes. But first, with your permission Mr. Chairman, ACTION's Acting Director, Mr. Walter Howe, would like to offer a few brief remarks.

General Statement of Walter C. Howe

Mr. Howe. Mr. Chairman and members of the committee, we welcome the opportunity to appear before you today on behalf of the Peace Corps, the international operations part of ACTION's volunteer programs.

Accompanying me this morning are Donald Hess, Associate Director of ACTION and Director of the Peace Corps, who will be our principal witness; Nicholas Craw, Associate Director for Citizens Placement; and Emerson Markham, ACTION's Director of Budget.

Our appropriation request for fiscal year 1974, Mr. Chairman, amounts to $77 million, a reduction from our current operating level of $81 million. As you know, the House last Thursday manifested strong initial support for the Peace Corps program when our enabling legislation, which contains a $77 million authorization level, was passed on the floor by a 299-to-72 margin.

Before Mr. Hess begins his testimony in support of this appropriation request, I would like to make a few brief remarks on behalf of the agency.

Mr. Chairman, I am sure that you are already aware that the House Foreign Affairs Committee recently sent two of its staff members overseas to personally examine and assess the performance of Peace Corps programs and volunteers. They traveled extensively throughout Asia and the Far East looking in depth at Peace Corps operations, and interviewing volunteers and United States and host government officials. The committee report, entitled, "The Peace Corps in the 1970's," was very constructive, and we have already begun to implement many of its suggestions for improving the effectiveness of our programs.

One of the most timely points which the report stressed was the necessity of insuring high quality volunteers matched to well-designed and well-managed programs. I want to assure you, Mr. Chairman, that the Peace Corps has been placing emphasis on these goals, and that our new ACTION Director-designate, Dr. Michael Balzano, along with Mr. Hess and myself, will make every effort to see that the trend continues. We were particularly pleased with the conclusion of the committee staff, who stated in the report that the volunteers they met "were, by and large, practical, mature, and job oriented individuals, who were at pains to avoid involvement in local or international political controversy," and that "they were also representative of a variety of age groups and economic and social segments of American society."

Mr. Chairman, the emphasis on quality, rather than on quantity—on program effectiveness, rather than on numbers of volunteers—is the cornerstone of the Peace Corps of the seventies. It is the way in which we feel we can make the most substantial impacts and make them lasting, to the benefit of both the United States and the countries in which we are working.

As Mr. Hess will shortly testify, we feel that our budget request for fiscal year 1974 reflects this emphasis and our commitment to achieving more effective programs. It also reflects our resolve to cut or hold costs wherever possible.

As we all know, this is a time when there is great pressure on the fiscal resources of this country. That pressure is reflected in the $11 million reduction from last years' Peace Corps request, just as it is reflected in the budgets for other Federal agencies. Nevertheless, we believe this request for $77 million following intense budget scrutiny identifies the Peace Corps program as one which continues to have the firm support of the administration.

Mr. Chairman, with your permission, I would like at this point to have Mr. Hess continue our testimony on the Peace Corps with his prepared statement.

GENERAL STATEMENT OF MR. DONALD K. HESS

Mr. HESS. Mr. Chairman and members of the committee. I want to thank you for the opportunity to appear before you today to discuss the Peace Corps program and the specific budget requirements to sustain that program in the upcoming fiscal year.

In fiscal year 1974, we are asking for a total budget of $77 million—$4 million below the $81 million approved and reported out by your subcommittee and acted upon favorably by the House last year. The $77 million is the lowest dollar request made by Peace Corps since its first two formative years. The important point, however, is that, while we are asking for less, we will sustain essentially the same number of volunteers in the field. We are tightening our "financial belts" in order to do this, cutting costs wherever possible, even in the face of inflationary pressures, both in the United States and overseas.

Before going into a detailed explanation of the factors affecting our budget, I would like to briefly touch upon some of the major programmatic themes of the Peace Corps today. This may be especially useful, Mr. Chairman, since a number of the members are new to the Subcommittee on Foreign Operations and new to the Peace Corps.

The Peace Corps is unique among American programs overseas. It is a voluntary program which works at the mid- and lower-level of developing countries. In order to build a true partnership, Peace Corps volunteers live at the modest level of their host country counterparts, learn the local language, and immerse themselves in the cultural environment in which they live. It is this partnership that makes Peace Corps substantially more than just another form of technical assistance—both for the volunteers and the host country.

CHANGE IN PEACE CORPS TODAY

The Peace Corps today is substantially changed from the Peace Corps of the 1960's. There will be approximately 7,300 trainees and volunteers serving in 58 countries by the end of this fiscal year. This is considerably smaller than the number of people who served during the 1960's.

The volunteer today is much different from his 1960's predecessor. A profile of the average volunteer today shows that he or she is older, has had more experience, is more likely to have a specific skill or specialty, is more likely to be married, and, in some cases, has a family. The average age of the volunteer has increased since 1966 from 23½ to 27½. The main reason for this is that we have aggressively responded to the growing number of requests for volunteers

who have increased technical skills and experience. People with such skills and experience are generally older. We also have focused some of our recruiting on older Americans, many of whom are retired and present a valuable volunteer resource. These people have responded in encouraging numbers. Americans over 50 years of age now comprise 5 percent of all volunteers, as compared to less than 1 percent in 1966. We are also increasing our efforts to recruit veterans, because they have many of the skills needed by developing countries.

The design, development, and implementation of Peace Corps projects have improved markedly over the past. Today, the programs tend to have a narrower focus and to be more specialized. Volunteers are not sent overseas to do "their thing," but are sent in response to a specifically defined job identified in advance.

MANAGEMENT EMPHASIS ON QUALITY

In fiscal year 1974, Mr. Chairman, we have one overriding management objective: To attain greater quality and effectiveness in all aspects of our program. We expect to achieve this objective by pursuing a number of specific policies.

First, we require that Peace Corps programs fit within the priorities of the host countries themselves. Within these priorities, the emphasis of Peace Corps assistance will be on human resource development. Both the concept of partnership and our concentration in human resource development are important, because it is the only way we know to insure that the efforts of the volunteer will have a lasting effect and that they will move the country toward self-sufficiency rather than away from it.

Second, we are recruiting volunteers with the appropriate skills and qualifications to match the requirements of the programs. Many countries now have more specialized needs than they had in the 1960's. In most cases, this means recruiting volunteers with more specialized skills and experience.

Third, we are improving our selection criteria and placement procedures, which was one of the recommendations in the recent House Foreign Affairs Committee report. This will be accomplished by increasing the number of applicants who attend a preinvitational staging, where they are carefully interviewed and where we explain what their jobs will entail. We are committed to sending overseas only those volunteers who meet the requirements of the program, even though this means that we will not be able to meet all of the host country requests. We would rather turn down a request than fill it with a volunteer who is not qualified.

Fourth, we will continue to emphasize the necessity for host countries to provide greater support for the Peace Corps operations abroad. As I stated earlier, one of the main reasons for the success of Peace Corps has been our ability to establish a true partnership with the host country. We have taken a major step in that direction by increasing the percentage of overseas staff who are host country nationals from less than 20 percent in 1966 to 76 percent now. Although host country contributions have increased by one-third since 1971, we are working to increase these by another 5 percent in 1974.

Fifth, Mr. Chairman, we will continue our emphasis on in-country

training. We believe that the quality of training is significantly enhanced by training volunteers in the environment in which they will eventually serve, rather than in the United States. In-country training is more relevant and realistic. It allows total immersion in the language and culture of the country and hastens the learning of both. It enables host ministries to participate fully in the planning and implementation of training and to further the partnership. Moreover, in-country training is one-third less expensive than training in the United States.

ACCOMPLISHMENTS OF PEACE CORPS

Mr. Chairman, as you have stated in the past, for any program to justify the expenditures of hard-earned tax dollars, it must be able to demonstrate that it has accomplished tangible results. In response to this, we have recently compiled a survey on various achievements of Peace Corps volunteers in the field. These accomplishments are far too numerous to list. However, Mr. Chairman, I would like to cite a few examples:

In El Salvador, two-volunteers have doubled the catch of a fishing cooperative from 80,000 to 170,000 tons this past year by training 21 men in marine fisheries techniques.

In Malaysia, one volunteer is developing mathematics and science materials for Malaysia's educational television unit. This material will be used by 86,000 primary and 418,000 secondary school students.

In a joint World Health Organization/Peace Corps program started in 1970 in Ethiopia, 14 volunteers working in conjunction with Ethiopian coworkers have detected 44,000 cases of smallpox, innoculated more than 6 million Ethiopians, and eradicated smallpox from 7 of Ethiopia's 14 provinces.

If you would like, Mr. Chairman, I can provide the entire survey to you for placement in the record.

FISCAL YEAR 1974 BUDGET REQUEST

At this point, I would like to turn to the budget request in more detail. As I said earlier, we are requesting $77 million—a $4 million reduction from our present budget. But, in fact, we will be making reductions substantially greater than the $4 million indicated in order to absorb unavoidable cost increases. The countries in which Peace Corps operates are today experiencing an average inflation rate of 7 percent. The budget that we are requesting absorbs the entire impact of that 7 percent. In addition, we now intend to absorb the full effect of the devaluation of the dollar. I would like to briefly summarize for you the steps we have taken to effect these reductions.

TRAINING

For training, Mr. Chairman, we are requesting an increase of $1.7 million. This increase is primarily the result of our plan to increase the number of new trainees entering in fiscal year 1974 by 731. These trainees account for approximately $1.6 million of the cost increase. We are also requesting an increase to expand the number of applicants attending a preinvitational staging. The preinvitational staging is the device designed to help us strengthen our selection procedures

to insure that the volunteers sent overseas are of the caliber necessary to meet the requirements of the program. This step accounts for $243,000 of the increase in training costs, but is consistent with our continuing effort to improve the overall quality of Peace Corps programs.

While increasing the number of trainees, we also plan to hold the cost per trainee constant. We will be able to do that because of our continued shift to in-country training.

As I stated earlier, in-country training saves money. In fiscal year 1970, when most of the training was in the United States, the average cost per trainee was $3,200. Had we continued to train in the United States, the average cost would be approximately $3,500. Instead, the cost per trainee has steadily decreased since fiscal year 1970 to the point where we are now estimating that it will be $2,210 dollars in fiscal year 1974.

There will also be a decrease of $201,000 in our college intern program. We are reducing the emphasis in this area, because we now feel we can obtain most of the skilled volunteers needed through the normal recruiting process.

VOLUNTEER COSTS

Volunteer allowances, transportation, and related expenses will be reduced $4.4 million below the fiscal year 1973 level. This primarily reflects a projected decrease in the number of volunteer man-years. The decrease in volunteer man-years in fiscal year 1974 is a residual effect of the small number of new trainees who were permitted to enter into the Peace Corps in fiscal year 1972. Since volunteers serve a total of 2 years, the man-years in any one fiscal year are a function of the trainees entering that fiscal year and in the two previous fiscal years. The full impact of the fiscal year 1972 shortage will be felt in fiscal year 1974. The second reason for the cut in volunteer expenses is our intention to hold the volunteer cost factors constant. Holding these constant will be no easy task, because our commitment to absorb the 7 percent inflation rate means that we will, in effect, be taking a 7 percent reduction.

We intend to accomplish this, however, by encouraging further host country contributions, by reducing supplies and equipment wherever possible, and by holding volunteer living allowances constant.

PROGRAM SUPPORT

In the program support activity, Mr. Chairman, we plan to reduce our fiscal year 1974 expenditures approximately $1.2 million. We will accomplish this through a general belt tightening across the board. There will be a redutcion in staff. There will be a reduction in the average salaries we pay our staff. And there will be a general reduction in all other nonsalaried costs. Taken together, these total more than $1 million.

These reductions will be offset by increases in only three categories. One of these is shared administrative support. As you know, the State Department provides the Peace Corps with administrative services for which we are obliged to pay. In the last few years, our bill for these services has increased approximately $400,000 each year. For fiscal year 1974, we expect this increase to be only $183,000. This represents a determined effort on the Peace Corps' part to reduce the required serv-

ices and a similar effort on the part of the State Department to reduce the cost of those services. There are also minor increases in travel associated with preinvitational stagings and overseas office rents.

In addition to reducing direct Peace Corps program support costs, the Peace Corps' contribution to ACTION-wide support will also be reduced. The entire agency will be holding the costs of recruitment, selection, and placement at substantially the same level, even though the number of applications and trainees increases. Other reductions totaling $1,377,000 are also planned in overall agencywide support.

In summary, Mr. Chairman, the budget we have presented to you is one which allows us to maintain the Peace Corps program at approximately the same level of volunteers and trainees, but for less money. We believe this is consistent with your stated desire to improve the cost effectiveness of all foreign assistance programs.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions that you or the other members of the committee may have.

Mr. PASSMAN. Thank you for your statements. We will insert the justification material in the record at this point.

[The material follows:]

INTRODUCTION

The funds requested in this budget presentation are for the Peace Corps, one of the volunteer programs of ACTION. ACTION was established under the reorganization authority granted to the President (Reorganization Plan No. 1 and Executive Order 11603), and includes the Peace Corps and several domestic volunteer programs--VISTA, University Year for ACTION, developmental and part-time efforts, Foster Grandparents, the Retired Senior Volunteer Program, and SCORE/ACE. Each of these programs operates under specific legislative authority described in the appropriate budget justification.

The primary reason for establishing ACTION was to create in one place a system of volunteer service by bringing together diverse volunteer programs and initiating new programs. Existing programs have benefited from the resulting cross-fertilization of program planning, execution, and evaluation, while new programs, such as University Year for ACTION, have been formulated based on the well-documented strengths of VISTA, the Peace Corps, and other programs. In addition to these program benefits, ACTION's creation has minimized costs by combining administrative functions which are more economically accomplished on a consolidated basis.

Funds for these programs are requested in two appropriations: (1) the Peace Corps, and (2) ACTION Domestic Programs. As noted above, the funds requested in this justification material are for the Peace Corps. Each of these appropriations includes funding for a share of ACTION consolidated administrative functions, such as volunteer recruitment, legal services, budgeting, accounting, and others. The portion of these costs assigned to the Peace Corps or to domestic programs is indicated in the justification. As in FY 1973, each appropriation's share of these administrative costs is based on the ratio of full-time personnel assigned to the Peace Corps versus full-time personnel assigned to domestic programs. This ratio is explained fully in the justification material.

To administer these vital programs, the Director of ACTION utilizes as "program managers" the Associate Director for International Operations for the Peace Corps and the Associate Director for Domestic and Anti-Poverty Operations for domestic programs. Providing support for these Associate Directors are:

- the Associate Director for Citizens Placement who manages the recruitment of volunteers;
- the Associate Director for Policy and Program Development who is responsible for new voluntary concepts and for planning and evaluation;

- o the Associate Director for Administration and Finance who is responsible for administrative functions;

- o various Assistant Directors covering such services as Legal Counsel, Public Affairs, Minority Affairs, Volunteer Liaison and others.

The Peace Corps organization provides for three regional directors (Africa, Latin America, and all other areas--North Africa, Near East, Asia and Pacific) with a number of countries in each region. Peace Corps programs are administered on a country-by-country basis.

Domestic programs are administered by regional offices located in the ten standard federal regions. Programs are administered in local communities within this regional structure.

The accomplishments of ACTION thus far include:

- o strengthening of the Peace Corps and VISTA by emphasizing the continuation and expansion of successful programs and the elimination of unsuccessful programs;

- o the development and carrying-out of the University Year for ACTION Program;

- o the administration of greatly expanded Foster Grandparent and Retired Senior Volunteer Programs;

- o management of these programs at the minimum essential cost level.

The budget request for these programs in FY 1974 is $169.4 million, as follows (FY 1973 is shown for comparison purposes):

($ in millions)

	FY 1973	FY 1974
Total (appropriations)	$175.1	$169.4
Peace Corps	81.0	77.0
Domestic Programs	94.1	92.4

These funds are intended to maintain programs essentially at existing levels, with emphasis to be placed on improving the quality of programs now in being. Consolidated administrative costs will continue at the minimum essential level; our request for this purpose is $1.4 million below the current FY 1973 level.

Our proposed funding will result in the following volunteer levels:

	End FY 1973	End FY 1974
Total	71,726	130,420
Peace Corps	5,824	5,974
Domestic Programs	65,902	124,446
(full-time)	(7,802)	(7,356)
(part-time)	(58,100)	(117,090)

Peace Corps, VISTA, and other ACTION volunteers support many and diverse programs in this country and abroad. With the approval of the Congress, this important work can continue in FY 1974.

PEACE CORPS, ACTION INTERNATIONAL PROGRAMS

For expenses necessary for ACTION to carry out the Peace Corps Act (75 Stat. 612), as amended. $77,001,000. (Reorganization Plan No. 1 of 1971; Executive Order 11603; additional authorizing legislation to be proposed).

Note: The appropriation for this account for 1973 had not been enacted at the time this budget was prepared. A temporary continuing resolution is in effect for the period from July 1, 1972 to June 30, 1973.

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PEACE CORPS

	FY 1972 Actual 1/	FY 1973 Estimate 2/	FY 1974 Estimate
Activity 1 Training	$11,130	$13,143	$14,860
Activity 2 Volunteers	30,927	34,416	30,026
Activity 3 Program Support	32,980	33,283	32,115
(Peace Corps Share of Agency-wide Support)	(12,973)	(13,058)	(12,656)
PEACE CORPS - Total	$75,037	$80,842	$77,001

1/ Includes $2,600,000 allocation from Agency for International Development.

2/ Does not include $158,000 GSA transfer.

General Statement

A. Introduction

The Peace Corps was established in 1961 by Executive Order; subsequently the Peace Corps Act (75 Stat. 612) made it an independent agency. On July 1, 1971, this program was transferred to ACTION in accordance with Reorganization Plan No. 1 of 1971 and Executive Order 11603. An International Operations organization was established as a part of the new agency, ACTION, and assumed responsibility for the Peace Corps.

The Peace Corps fosters international goodwill by providing development assistance to interested countries on a person-to-person basis. Unique among United States overseas programs, the hallmarks of high motivation, self-sacrifice, and a spirit of innovation continue to characterize the 7,000 Peace Corps Volunteers serving in fifty-eight countries around the world today.

Congress gave the Peace Corps direction by defining three broad goals that are as important for the 1970's as they were in 1961. The goals strike a balance between development assistance and mutual international awareness by making available to host countries Americans willing to:

1. Help developing countries meet their needs for trained manpower.

2. Help promote a better understanding of the American people on the part of people served; and

3. Promote a better understanding of other people on the part of the American people.

B. The Peace Corps Meets Three Critical Needs Inexpensively

The goals set for the Peace Corps by Congress address three critical needs that will persist through the 1970's, and the Peace Corps helps meet those needs with considerably less expense than other U.S. overseas programs. The approximately $10,000 average cost per year of providing a Peace Corps volunteer to work at the middle levels of development is less than 25 percent of the total annual cost for the professional technicians or experts provided by the larger international development agencies. Although usually working at different levels of development, volunteer activities often supplement the efforts of the larger organizations.

1. Urgent Need for Trained Manpower in Developing Nations

The need for trained manpower overseas grows steadily. The problems of developing countries in combating poverty, illiteracy, hunger, and disease continue and are compounded by the population explosion. Gains in employment, agricultural production, housing, and health facilities are either overtaken by expanding populations or followed by secondary problems which slow the escape from the vicious circles of poverty. For example, the "Green Revolution" led to increased food production in some countries which then had to confront serious new problems in food distribution. These problems are particularly acute at the middle and grassroots level of development where Peace Corps volunteers are assigned.

It is commonly agreed that the gap between rich and poor nations continues to widen despite two decades of concerted efforts by leading developed nations. Yet several important lessons were learned during the 1960's about social and economic development which have direct bearing on the service the Peace Corps provides.

The first lesson was that transferring capital and Western technology alone were not enough to affect significantly the well being of the 2.0 billion poor people in the developing world. The social aspects of development problems must be considered along with economic factors before either type of progress can be achieved. The World Bank estimates that one billion people are still hungry or malnourished and that there are 100 million more adult illiterates today than there were 20 years ago. Some studies indicate that in those few developing countries that did

experience significant growth of GNP per capita, the distribution of income often left major portions of the populations poorer at the end of the past decade than at the beginning.

Another lesson was that for development to be meaningful to the populations involved, much more consideration would have to be given to social and human resource development. Large development agencies are including research and development of useful social indicators in their plans for the 1970's and are planning more broadly gauged attacks on the intertwined problems of poverty, illiteracy, hunger, and disease.

It has also been learned that all development efforts must proceed on a genuine partnership basis between donors and recipients as developing countries play a larger role in defining their own needs and useful indicators of progress.

By its very nature, as it has evolved since 1961, the Peace Corps has contributed to creating these approaches to socio-economic development. From the outset Peace Corps volunteers have been predominantly involved in education, agriculture, and health, with the primary mission of developing the human resources in these fields through creative partnerships with host countries.

2. Need to Perpetuate Good U.S. Image Abroad

Equally important to providing trained manpower is the need for the United States to perpetuate goodwill and friendship abroad. America's national image is enhanced in the developing nations. around the world where Peace Corps volunteers serve today. Not only do volunteers roll up their sleeves and train people to help themselves, but they live at the modest level of their counterparts, speak the local languages, and develop mutual respect in the process.

The Peace Corps has never comprised more than a small per cent of total United States economic assistance, yet it provides visible, trained manpower throughout 58 developing nations. Thirty-one of these countries receive no other U. S. bilateral technical assistance and the presence and impact of the United States is measured substantially in people-to-people terms by host governments. Volunteers live and work directly with the people at their level and are primarily located outside of capital cities. Consequently, Peace Corps volunteers represent a more positive image than many other Americans working or traveling overseas. Host countries continue to express their appreciation of the Peace Corps by requesting more volunteers and by communicating their gratitude both officially and unofficially.

3. Need to Provide Constructive Opportunities for Americans to Serve Abroad and Increase Their International Understanding

Peace Corps volunteers overseas represent a cross-section of American society geographically and in types of skill, experience,

age and academic training. Volunteers gain sensitivity to other customs and an appreciation for other societies while serving abroad. By the time they return to the United States, volunteers have usually grown in personal maturity and developed a broader view of the world. Of direct benefit to the United States is the fact that more than 75 percent of the nearly 50,000 returned Peace Corps volunteers have chosen service-oriented careers after their tours, primarily in the fields of education, government, international organizations, and foundations.

C. The Peace Corps Mission in the 1970's

To carry out its proposed program in FY 1974 and beyond, the Peace Corps will continue to emphasize the following major policies which have characterized FY 1973. Derived from more than a decade of experience, they have been found to be the most effective means of implementing the Peace Corps' goals.

Binationalism - Partnership with Host Countries. The relevance and stability of Peace Corps' programs overseas are reinforced by the policy of binationalism, which integrates Peace Corps projects into the goals and plans of each country. To avoid the pitfalls of a "donor-receiver" relationship, the Peace Corps staff overseas forego genuine partnerships with host countries by sharing responsibility for the programming, training, selection, and supervision of volunteers. To facilitate this process, 56% of permanent overseas staff will be local citizens in FY 1974.

Peace Corps volunteers are invited into the classrooms and villages of countries which feel that it is important that volunteers work in concert with local institutions towards nationally established goals. The genuine partnerships that evolve between the Peace Corps and host countries foster goodwill for the United States and increase the stability of Peace Corps programs overseas. Binationalism also assures that volunteers are placed in positions of maximum benefit to the host governments' development plans.

A recent report of the Senate Study Mission to Central and East Africa sponsored by the Senate Appropriations Committee highlighted the benefits of binationalism:

> "Another aspect of the Peace Corps' new directions which these African leaders particularly noted was the emphasis on binationalism, a policy of increasingly staffing the Corps with host country nationals. This has given the host countries a sense of genuine participation, and many of the leaders are coming to feel that the Peace Corps is as much theirs as ours".

Balanced Programming. The Peace Corps balances its programs overseas in two key respects. First, potential jobs are evaluated both for their impact on important social and economic development problems and the opportunity for the volunteers to have significant cross-

cultural experience with the people of the host countries. High impact jobs that afford little opportunity to live and work with local people are strongly discouraged as are jobs with high cross-cultural interaction but little contribution to development.

Second, while being responsive to the needs of the host countries, an effort is made to balance the jobs requiring highly skilled volunteers such as agronomists, lawyers, nurses, and mechanics with those jobs that can be handled by Americans with broad general abilities. There continues to be a strong need for liberal arts graduates who are highly motivated, adaptable, and innovative problem-solvers.

Peace Corps Uniqueness. The Peace Corps is unique among U.S. Government and other developmental agencies overseas. As the goals established by Congress indicate, the Peace Corps' mandate is to provide development assistance and create mutual understanding with neither emphasis leading to the exclusion of the other. Consequently, the Peace Corps has emphasized contributions to social and human needs in addition to economic development.

The result of this unique mandate which calls upon a cross-section of the American people is a form of development assistance characterized by vitality and a spirit of innovation. Peace Corps volunteers have a relatively short period of two years in which to accomplish the defined objectives of their assignment. At the same time, they have no vested interest in a career with either their host government or the Peace Corps, which enables them to be as innovative as possible.

In training and throughout their service, volunteers are also encouraged to engage in constructive secondary activities according to the needs of their communities. The tradition that Peace Corps volunteers are volunteers 24 hours a day still applies.

The following specific policies will continue to preserve the uniqueness of Peace Corps programs around the world:

1. To increase job effectiveness and cross-cultural opportunities, volunteers are required to live on subsistence allowances at the level of their counterparts, generally sacrificing the standard of living they would normally enjoy in the United States.

2. To encourage respect for and adherence to local laws and customs, volunteers are not granted diplomatic immunity. Strong policies on dress and social behavior are set and applied in conjunction with host country standards.

3. All Peace Corps volunteers must complete at least 300 to 350 hours of local language instruction, a requirement which is unique among international development agencies.

The Peace Corps is a government-to-government organization in its official programming, yet the volunteers operate on a people-to-people basis. When volunteers complete their tours, they leave behind a legacy of technical skills and an analytical approach to problem-solving that have been taught to host country people. Such skills have a "multiplier effect" as they are passed along to fellow countrymen.

Management Emphasis on Quality. A major focus of the Peace Corps' management during the mid 1970's will be a concentration on the quality, stability, and effectiveness of its programs. The planning mechanism in each Peace Corps country is being strengthened with the implementation of improved program and budgeting systems while attention continues to be paid to the relevance, structure, supervision, and support of current volunteer projects.

The Peace Corps will soon be implementing improved management systems to establish more uniform and efficient accountability. Methods used in the past have been very useful, but there is still room for improvement. It takes an extra degree of effort to assure uniformly high quality operations, and the Peace Corps plans to make the effort. To this end, the Peace Corps also plans expanding its evaluation capability through the implementation of new internal evaluation systems in FY 1974.

All of these efforts are designed to improve the organization's ability to allocate its resources efficiently, to provide the most effective programs wherever they are needed, and to increase the Peace Corps' internal and external accountability.

D. The Peace Corps Program

The Programming Process and Criteria. Planning volunteer assignments is a continual process in which overseas Peace Corps staff members work jointly with host country officials. Together they identify and assess the feasibility of a wide variety of potential jobs. The jobs must complement the developmental goals and plans of the country, have an institutional base which will provide support within the country, and allow the prospective volunteer to have good cross-cultural opportunities. Before giving final approval to a request and raising a country's expectations, Peace Corps headquarters reviews the proposal and determines the probable availability of applicants qualified to do the job. General determinations of "supply and demand" are made, and requests are approved accordingly. It takes approximately 9-13 months from the time of the original host country request until the volunteer, fully-trained, arrives at his job site to start work.

Who Are the Volunteers. Peace Corps volunteers of all ages come from every state in the Union with a variety of educational backgrounds and a diversity of experience. States producing the most volunteers are California, New York, Illinois, Pennsylvania and Ohio. The average age of volunteers is gradually increasing, and 25% of the volunteers are married.

Currently the average age of volunteers is 27½ years, up from an average age of 24 three years ago. This reflects the increase of volunteers over the age of 50 from 100 in 1970 to 300 today.

Sixty-seven percent of all volunteers serving today can be classified as having some specific kind of skill in health, education, the skilled trades, or one of the professions. Only 3.5 percent of all volunteers have no college education while more than .4 percent have M.S. or M.A. degrees. Registered nurses make up .5 percent of the volunteer force and .7 percent of the volunteers have doctorate or law degrees.

Where the Volunteers Serve. Peace Corps volunteers currently serve in 58 countries around the world. By the end of FY 1974, it is anticipated that five more countries will have asked for Peace Corps volunteers. A complete list of countries with associated volunteer numbers is contained in Appendix D. (pg. 5-7)

As a general policy, the Peace Corps will provide volunteers to those countries that have the need and desire for them and where the programming of jobs can meet standard Peace Corps criteria. The Peace Corps responds to legitimate requests in order to maximize opportunities for Americans to serve abroad, contribute to development, generate mutual understanding, and gain personally from the whole experience. However, today the Peace Corps will only go into a new country if it can be accomplished within existing ceilings on staff and with a minimum of additional expense. This usually means that such a project will be small and supported by the Peace Corps staff in a neighboring country.

Peace Corps Projects. Peace Corps volunteers serve host countries in 955 different projects in activities diversified to be as responsive as possible to the specific needs of each country. Projects are defined as one or more Peace Corps volunteers requested by a country to work toward a set of objectives for a two-year period. Since 1968 the number of projects in effect each year has increased despite decreases in staff, indicating an increasing responsiveness to development needs overseas. At the same time the average size of each project has become smaller as projects have become increasingly targeted to host country development needs and each volunteer programmed for maximum impact.

Number of Programs in Effect

	FY 1968	FY 1969	FY 1970	FY 1971	FY 1972	FY 197
Projects	409 1/	462 1/	530 1/	589	787	955

The Peace Corps groups volunteer projects into five functional program categories to facilitate an overview of trends. A sixth category covers those few which do not easily fit into the others.

1/ Calendar year figures

Distribution of Volunteers by Program Categories
(See Appendix C: Maps of Distribution of Peace Corps Programs by Country on page .)

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
1. Agriculture & Rural Development...	25%	26%	27%
2. Business & Public Management.....	5%	5%	5%
3. Education.....	46%	43%	41%
4. Health.....	11%	12%	13%
5. Public Works & Urban Development..	8%	8%	8%
6. Other.....	5%	6%	6%
Total	100%	100%	100%

Peace Corps exercises its management of countries through three administrative regions: Africa, Latin America, and NANEAP (North Africa, Near East, Southern Asia, East Asia and the Pacific). A brief discussion of each program category summarized above will illustrate the primary activities of Peace Corps volunteers in each region.

1. Agriculture and Rural Development

	Percent of Worldwide Volunteers		
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
AFRICA.....	8%	8%	9%
NANEAP.....	6%	7%	8%
LATIN AMERICA.....	11%	11%	10%
Total	25%	26%	27%

Many Peace Corps host countries continue to identify agriculture as their area of most urgent need. More than two-thirds of the people in the developing world make their living off the land at subsistence levels. Most host countries count heavily on agricultural produce for their position in world trade and the financing of their own development plans.

Peace Corps volunteers are requested to help facilitate the transition from predominantly traditional agricultural practices to more modern methods of planting, cultivation, harvesting, marketing, and nutrition. Volunteers in this program category are both agricultural teachers and extension agents. They advise local farmers and provide assistance to agricultural cooperatives. A relatively small number of volunteers assist the work of research stations and help train host country government personnel. Volunteer activities range from fisheries and forestry development to vocational agricultural instruction and agricultural economics.

2. Business and Public Management

	Percent of Worldwide Volunteers		
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
AFRICA	1%	1%	1%
NANEAP	1%	1%	1%
LATIN AMERICA	3%	3%	3%
Total	5%	5%	5%

Although comprising a small percentage of all volunteer activities, a number of host countries request high impact and innovative projects in the public and private sectors. In an attempt to augment overall economic growth by balancing development of both sectors, volunteers are asked to strengthen small business advisory services and marketing boards as well as consumer and credit cooperatives. Some countries even ask for limited assistance in developing their own planning capabilities.

3. Education

	Percent of Worldwide Volunteers		
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
AFRICA	18%	16%	15%
NANEAP	23%	22%	21%
LATIN AMERICA	5%	5%	5%
Total	46%	43%	41%

During the early days of the Peace Corps in the 1960's, most volunteers were asked to fill manpower shortages in the primary and secondary school systems around the world. This was particularly true in Africa which was just emerging from a long period of colonial rule during which little effort had been made to train local teachers.

Even in the 1970's the pressures of population growth continue to overtake progress made by building new classrooms and training host country teachers. Nevertheless, the trend has been for host countries to provide most of their own needs for staffing elementary schools.

Peace Corps volunteers continue to serve critical needs but at higher levels of academic education, with a small number teaching at host country universities. They are also asked to assist in broadening the educational opportunities for host country people by working in vocational education, teacher training institutions, physical education, and those arts likely to help people earn a livelihood. The Peace Corps also finds a continuing need in developing countries for volunteers to teach English as a second, or foreign language.

4. Health

	Percent of Worldwide Volunteers		
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
AFRICA.....	3%	4%	4%
NANEAP.....	3%	3%	3%
LATIN AMERICA.....	5%	5%	6%
Total	11%	12%	13%

In many countries where the Peace Corps serves, 70 to 80 percent of all reported diseases are preventable. Diseases that are rare or non-existent in the western world still take huge tolls in the rest of the world. As a partial solution to the problems of preventable disease, there is a critical need to promulgate modern sanitation and nutritional practices at the grassroots levels of society.

Health leaders of developing countries are handicapped primarily by severe shortages of professional and paramedical manpower available to deliver services and conduct public health education. A wide variety of Peace Corps volunteers help meet needs in rural clinics, nurse training centers, hospitals, and disease control projects. Peace Corps volunteers teach health and nutrition in schools and through national public health campaigns.

5. Public Works and Urban Development

	Percent of Worldwide Volunteers		
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
AFRICA.....	2%	3%	3%
NANEAP.....	2%	2%	2%
LATIN AMERICA.....	4%	3%	3%
Total	8%	8%	8%

As developing nations confront problems of education, agriculture, and health, they must also contend with the rapid worldwide trend toward urbanization. Public utility services must keep pace with the expansion of urban areas as must the provision of adequate housing.

The Peace Corps provides volunteers to help train mechanics and other skilled tradesmen, and to assist road building, well-digging, and housing construction projects. A small number of architects and urban planners are periodically programmed into special, high-impact projects.

6. Other Projects

	Percent of Worldwide Volunteers		
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
AFRICA	1%	1%	1%
NANEAP	3%	4%	4%
LATIN AMERICA	1%	1%	1%
Total	5%	6%	6%

Less than six percent of Peace Corps volunteer activities do not fall under the previous program categories. "Other" projects respond to unique requests in fields like library or museum science, and youth programs. When necessary, projects also are mounted in response to emergencies such as famines, typhoons, and earthquakes.

PEACE CORPS, ACTION INTERNATIONAL PROGRAMS

Summary of FY 1974 Budget Request

	($000)		
	FY 1972 Actual 1/	FY 1973 Estimate 2/	FY 1974 Estimate
Peace Corps			
Activity 1-Training			
A. Direct Training	$ 9,565	$11,114	$12,730
B. Trainee Travel	425	523	582
C. Intern Programs	676	517	316
D. PRIST	464	989	1,232
Subtotal, Activity 1	$11,130	$13,143	$14,860
Activity 2-Volunteers			
A. International Travel	$ 5,679	$ 6,370	$ 6,726
B. Allowances	11,863	14,427	12,643
C. Other Volunteer Support	4,633	5,274	3,468
D. Dependent Support	1,157	682	333
E. Readjustment Allowance	7,595	7,663	6,856
Subtotal, Activity 2	$30,927	$34,416	$30,026
Activity 3-Program Support			
A. Staff	$16,307	$15,858	$14,909
B. Shared Administrative Support	3,600	4,017	4,200
C. Multilateral Grants	100	350	350
D. Peace Corps Share of Agency-Wide Support	12,973	13,058	12,656
Subtotal, Activity 3	$32,980	$33,283	$32,115
Total Peace Corps	$75,037	$80,842	$77,001
Trainee Input	3,608	5,029	5,760
Volunteer Manyears	6,632	6,882	5,950
Staff	749	749	741

1/ Includes $2,600,000 allocation from Agency for International Development.

2/ Excludes $158,000 transferred to General Services Administration.

SUMMARY OF MAJOR CHANGES

For FY 1974 there is a net decrease of $3,841,000 from the FY 1973 funding level. The major changes from FY 1973 to FY 1974 are as follows:

		($000)
FY 1973 Estimate		$81,000
Less transfer to General Services Administration		-$ 158
Total		$80,842
Activity 1-Training	+$1,717	
The increase in training funds will support an increase in trainee-input and additional PRISTees above FY 1973 levels.		
Activity 2-Volunteers	-$4,390	
The decrease in volunteer funds is based on a reduction of volunteer man-years below the FY 1973 level and reduced supply, equipment, and vehicle costs.		
Activity 3-Program Support	-$1,168	
The decrease in program support funds is based on a reduction of eight positions, reduced program support operating expenses and Peace Corps share of agency-wide support.		
FY 1974 Estimate		$77,001

Budget Activity 1
TRAINING

	($000) FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
A. Direct Training	$ 9,565	$11,114	$12,730
B. Trainee Travel	425	523	582
C. Intern Programs	676	517	316
D. Pre-Invitational Staging (PRIST)	464	989	1,232
Total	$11,130	$13,143	$14,860
Trainee Input	3,608	5,029	5,760

General Statement

All Peace Corps volunteers are given special training prior to their assignment abroad. In almost all instances this training includes language study, technical skills development, and cross-cultural orientation. Pre-service training in these areas is imperative to the volunteers' ability to make an early adjustment to, and become effective in, their volunteer roles.

Until the last two years, most Peace Corps training was in the United States. By the end of FY 1973 between 80-85 percent of all training will occur either in the country where the trainees will later serve as volunteers or in a nearby country overseas. In FY 1974 the total in-country training will continue to increase. The advantages of this approach justify its growing use.

(1) In-country training makes the training more relevant since the trainees can see firsthand the actual environment in which they will live and work.

(2) In-country training permits maximum participation by the requesting host country government and therefore gives them a realistic partnership in the preparation of trainees for future service.

(3) In-country training permits the Peace Corps field staff to participate more directly in the planning and implementation of training.

(4) In-country training is usually less expensive than training in the U.S. Many of the administrative and management costs that are contracted out in U.S. training are executed by the regular country Peace Corps staff for in-country training.

There are two distinct steps an applicant must follow to become a volunteer:

(1) He must attend a staging in the U.S. prior to beginning training. The staging may take different forms. Approximately 40 percent of the applicants will attend a medical/admin. staging to complete necessary routine matters before being accepted into training. The other 60 percent of the applicants will attend a pre-invitational staging (PRIST). A PRIST serves a more comprehensive function than the medical/admin. staging. Applicants go through an intense three-day screening to learn about Peace Corps and the project in which they are invited to work and to be evaluated with respect to their suitability for the particular project.

(2) Those applicants who have successfully completed the preliminary steps, must be trained in the host country or, in some cases, at a central third country location.

Volunteers are usually trained in groups. They prepare themselves under the supervision of a training staff which in most instances consists of a project director and language, technical, and cross-cultural instructors. Language instructors are usually host country nationals while former Peace Corps volunteers often comprise the technical and cross-cultural staffs. Maximum effort is made to make the training conform to what the trainees will actually need in order to do their jobs effectively and relate to their communities in a productive manner. Although the length of training varies from program to program, it averages twelve weeks in length. All programs are intensive and average 60 hours of structured training per week. This permits a training program of approximately 700 hours. Experience has demonstrated that this is the amount of training required to provide trainees with essential cultural skills, a capability in a technical area, and sufficiency in the local language. A typical training program of twelve weeks would be as follows:

High intensity language instruction	-	350 hours
Technical training/orientation	-	250 hours
Cross-cultural training	-	100 hours
Total		700 hours

Budget Activity 1A
DIRECT TRAINING

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Direct Training	$9,565	$11,114	$12,730	+1,616

Direct training expenses include the direct costs of the actual training and trainee support. Training expenses are the costs of providing instruction to trainees during their intensive twelve-week training period. This covers the cost of facilities, which include classrooms, language equipment, and other fixed overhead. It also covers the costs of instruction, including salaries and benefits of trainers, clerical support, and other variable expenses associated with actual training. The bulk of the training costs (70%) occurs in the instruction portion. Five percent is allotted to development of a specific curriculum to meet the objectives of the training; 25% is allotted to facilities and equipment.

In addition, direct training expenses cover all other costs of maintaining trainees during their training period. These include the cost of trainee materials (books, language tapes, manuals), food, housing, local transportation, medical services, and dependent support.

If training is to take place in the U.S. or at a central regional location, Peace Corps negotiates a comprehensive contract with a university or a private firm to direct all facets of the training. If training is to take place in the host country, training may be contracted or directed by Peace Corps personnel and host country nationals. In addition, personal service contracts are let to individuals with particular expertise in a relevant field.

Changes in Direct Training Costs

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of Trainees	3,608	5,029	5,760	+ 731
Average Direct Training Cost per Trainee 1/	X$2,651	X$ 2,210	X$ 2,210	--
Total ($000)	$9,565	$11,114	$12,730	+1,616

1/ To the nearest dollar

The estimated increase of $1,616 from FY 1973 to FY 1974 is due solely to the increase of 731 trainees. The average cost per trainee is expected to remain constant between FY 1973 and FY 1974.

Budget Activity 1B
TRAINEE TRAVEL

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Trainee Travel	$425	$523	$582	+$59

Trainee travel is the cost of transporting applicants who have been invited to a training program from their home of record to the staging site in the United States. At the staging site preliminary administrative matters, such as passport papers, and medical exams are handled as applicants officially become trainees. Staging takes place immediately prior to beginning training and trainees go directly from the staging site to the training program. For applicants who have not gone through a PRIST, the staging will be the first contact they have had with Peace Corps personnel. Staging sites normally are continental U.S. areas closest to the foreign region where training will take place.

Changes in Trainee Travel

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of Trainees	3,608	5,029	5,760	+ 731
Average Travel Cost per Trainee 1/	X$ 118	X$ 104	X$ 101	-$ 3
Total ($000)	$ 425	$ 523	$ 582	+$ 59

1/ To the nearest dollar

The estimated increase of $59,000 between FY 1973 and FY 1974 is caused by a 731 trainee increase, offset by a $3 per trip decrease. Proportionally, the 731 trainee increase generates a $74,000 increase in total, but is reduced because the per trip cost decreased a total of approximately $15,000. The $3 per trip decrease is planned because cost estimates based on the location of staging sites and applicant geographical mix indicate a lower per trip average in FY 1974.

Budget Activity 1C
INTERN PROGRAMS

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Intern Programs	$676	$517	$316	-$201

Intern programs are the means by which Peace Corps recruits and trains volunteers in those areas where the supply of qualified applicants does not meet the demand from host countries. The programs are designed primarily to attract and train qualified agriculturalists, nurses, certified teachers of math, science, and vocational arts. These programs continue to be extremely important to fulfilling the Peace Corps' mandate of responding to host country manpower needs while offering service opportunities to all Americans.

The Peace Corps enters into contractual agreements with universities producing the specific type of graduates needed in the developing countries requesting volunteers. The universities help recruit and train qualified Peace Corps applicants either during the senior year of undergraduate work or during the first year of graduate study. In addition to weekly seminars oriented to their prospective assignment, Peace Corps interns have the opportunity to adopt their own course schedules to better prepare themselves for service overseas. Most universities in turn allow academic credit for successful completion of Peace Corps tours in their students' chosen fields. In one particular type of intern program, the Peace Corps shares the cost of training those Teacher Corps volunteers who will serve overseas as Peace Corps volunteers upon graduating from the Teacher Corps.

The cost of intern programs includes on-campus recruiting, pre-invitational staging, training staff and materials, medical coverage, and overhead.

Changes in Intern Programs

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of interns	376	323	211	- 112
Average cost per intern	X$1,800	X$1,602	X$1,500	-$102
Total ($000)	$ 676	$ 517	$ 316	-$201

The estimated decrease of $201,000 between FY 1973 and FY 1974 is attributable both to the planned decrease in the number of interns from 323 to 211 and the decrease of $102 per intern in the average cost per intern. The decrease in the number of interns is planned because of a decision to place greater emphasis on normal recruitment and training channels to fill host-country requests for specialized volunteers. However, certain skilled volunteers remain accessable primarily through the intern program. The $102 per intern cost reduction from FY 1973 to FY 1974 is anticipated because of the effort currently underway to evaluate and identify for continuation only the most efficient, least expensive training organizations. Proportionally, 90% ($180,000) of the decrease is accounted for by the reduced number of interns and 10% ($21,000) is due to the per intern cost decrease.

Budget Activity 1D
PRE-INVITATIONAL STAGING (PRIST)

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
PRIST	$464	$989	$1,232	+$243

The Pre-Invitational Staging (PRIST) is an intensive three-day job interview program to which potential Peace Corps trainees are invited. At least one month prior to the beginning of a training program the PRIST takes place at a central point in the United States to provide a two-way suitability screening. The potential trainees are given detailed firsthand information on the Peace Corps, the country which is requesting their service, and the exact nature of the jobs to be performed. With this information, the applicants assess their own suitability and motivation to join the Peace Corps before severing their ties in the United States and entering a training program overseas. At the same time, the Peace Corps staff has an opportunity to assess the potential trainees' qualifications for Peace Corps service overseas in particular jobs. Individual interviews, group discussions, and consultation with experienced psychologists all contribute to the final decisions to serve formal invitations to suitable applicants.

The PRIST has two primary purposes. The thoroughness of the suitability screening helps to minimize early termination during training. With most training for FY 1974 scheduled to take place overseas, minimizing training attrition leads to cost savings directly related to trainee return airfares. The PRIST also has a strong qualitative impact on the efficiency of Peace Corps programming. In addition to enabling a quality control for the invitation of applicants, the lead-time before training provided by a PRIST allows for adjustments in training designs overseas to accommodate the exact levels of skill and experience that the trainees will possess at the start of training. Training programs, as a consequence are more efficient. The PRIST also re-enforces the Peace Corps policy of bi-nationalism by involving host country officials at the outset in the selection of volunteers who will be serving in their countries.

PRIST costs include roundtrip airfare for the potential trainee from their home of record to the PRIST site, room and board for three days, meeting facilities, and consultant psychologists.

Changes in PRIST Cost

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of PRISTees	1,600	3,410	4,320	+ 910
Average cost per PRISTee 1/	X$ 290	X$ 290	X$ 285	-$ 5
Total ($000)	$ 464	$ 989	$1,232	+$243

1/ To the nearest dollar

The estimated increase of $243,000 from FY 1973 to FY 1974 is caused by the large increase (910) in potential trainees who will attend a PRIST. This increase is offset by the $5 per PRISTee decrease in FY 1974. The increase in PRISTees results from a policy decision to PRIST approximately 60% of the 7,000 applicants in FY 1974 compared to approximately 50% of 6,550 applicants in FY 1973. This decision was made because of the preference shown by host country governments for PRISTed trainees. The savings of $5 per PRISTee is anticipated because the increased number of FY 1974 PRISTees permits savings with respect to fixed overhead cost items, such as facilities and staff. Proportionally, the $243,000 increase is due to a $265,000 increase in PRISTees, offset by a $22,000 decrease in the cost per PRISTee.

Budget Activity 2
VOLUNTEERS

	($000)		
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate
A. International Travel	$ 5,679	$ 6,370	$ 6,726
B. Allowances	11,863	14,427	12,643
C. Other Volunteer Support	4,633	5,274	3,468
D. Dependent Support	1,157	682	333
E. Readjustment Allowance	7,595	7,663	6,856
Total	$30,927	$34,416	$30,026
Volunteer Manyears	6,632	6,882	5,950

General Statement

After an applicant has been recruited and trained for a specific job request abroad, he is then sworn in as a volunteer and is assigned to the host country institution requesting his services. The volunteer works directly with that institution and coordinates his activities directly with the host country officials. The term of service of volunteers is normally two years.

There are a number of basic expenses which are required to support the volunteer in the field. These expenses can be separated into five general categories: travel to and from the host country of assignment, subsistence and leave allowances, other volunteer support costs, support of dependent children, and readjustment allowance. Included in "other volunteer support costs" are medical services, in-country travel, volunteer supplies, vehicles, and miscellaneous costs. Most of these expenses vary among volunteers depending on the host country cost of living and the requirements of the volunteer's work.

In determining what amounts are appropriate for each volunteer, the overriding consideration is that the volunteer live at a level equivalent to that of his host country co-workers. In almost all instances this represents a standard of living substantially below what the volunteer has been accustomed to in the United States.

Budget Activity 2A
INTERNATIONAL TRAVEL

($000)

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Travel to Host Country	$2,205	$3,073	$3,519	+$446
Travel from Host Country	2,813	2,386	2,483	+ 97
Extendee Travel	588	601	479	- 122
Emergency Leave Travel	73	310	245	- 65
Total	$5,679	$6,370	$6,726	+$356

International travel has four components: the transportation of trainees and volunteers to their country of assignment, the return travel of volunteers completing their service or terminating early, round-trip fare to the U.S. for volunteers who are extending their two-year tour of service by at least one year, and round-trip fare to the U.S. for volunteer emergencies.

Changes in Travel to Host Country

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of trips	3,608	5,029	5,760	+ 731
Average cost per trip 1/	X$ 611	X$ 611	X$ 611	--
Total ($000)	$2,205	$3,073	$3,519	+$446

1/ To the nearest dollar

The estimated increase of $446,000 between FY 1973 and FY 1974 is accounted for solely by the increase in number of trips, as the average cost per trip is anticipated to stay the same. Travel to host country is a function of the trainee input which has increased by 731 from FY 1973 to FY 1974.

Changes in Travel from Host Country

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of trips	4,341	3,848	4,005	+ 157
Average cost per trip 1/	X$ 648	X$ 620	X$ 620	--
Total ($000)	$2,813	$2,386	$2,483	+$ 97

1/ To the nearest dollar

The estimated increase of $97,000 between FY 1973 and FY 1974 is caused solely by the increase of 157 in the number of trips from host countries. The average cost per trip remains the same in FY 1974 as in FY 1973. Travel from host countries is related to the number of volunteers completing service or terminating early. Travel varies from year to year following primarily the training patterns of the prior two years. Based on historical patterns, early terminees are estimated at the rate of 1.5% of volunteers on board per month.

Changes in Extendee Travel

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of trips	454	467	372	- 95
Average cost per trip 1/	X$1,296	X$1,288	X$1,288	--
Total ($000)	$ 588	$ 601	$ 479	-$122

1/ To the nearest dollar

The estimated decrease of $122,000 between FY 1973 and FY 1974 is caused solely by the anticipated decrease of 95 in the number of extendees. The cost per trip is expected to remain the same between FY 1973 and FY 1974. The number of volunteers who are able to extend is a function of a specific host country request for his extension and a request to extend by the volunteer.

Changes in Emergency Leave Travel

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of trips	56	241	190	- 51
Average cost per trip 1/	X$1,296	X$1,288	X$1,288	--
Total ($000)	$ 73	$ 310	$ 245	-$ 65

1/ To the nearest dollar

The estimated decrease of $65,000 between FY 1973 and FY 1974 is caused by the anticipated decrease of 51 in the total number of emergency trips. The decrease is planned because the number of volunteer manyears are expected to decrease, while the rate of emergencies per manyear is assumed to remain approximately the same.

Budget Activity 2B
ALLOWANCES

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Living Allowance	$ 9,784	$12,211	$10,555	-$1,656
Settling-In Allowance	642	734	803	+ 69
Leave Allowance	1,437	1,482	1,285	- 197
Total	$11,863	$14,427	$12,643	-$1,784

Volunteers in service receive three payments classified as allowances. The living allowance is paid monthly to each volunteer for subsistence level support covering food, housing, clothing, and minor incidental expenses. The living allowance varies from country to country and within countries according to the minimal cost of living in the region where the volunteer lives and works.

The settling-in allowance is a one-time payment at the beginning of each volunteer's tour for the purpose of buying such items as dishes, cooking utensils, and bedding. The amount of each allowance reflects local cost variations for these items.

The leave allowance is paid to each volunteer at the rate of two days for each month of service. Volunteers receive $9 for each day of leave for a total of 24 days, or $216 per year. With this leave volunteers have the opportunity to travel within the country of assignment or to nearby countries in order to broaden their international awareness and understanding.

Changes in Living Allowance

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer manyears	6,632	6,882	5,950	- 932
Average cost per volunteer manyear 1/	X$1,475	X$ 1,774	X$ 1,774	--
Total ($000)	$9,784	$12,211	$10,555	-$1,656

1/ To the nearest dollar

Changes in Settling-In Allowance

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer arrivals	3,620	3,947	4,330	+ 383
Average cost of volunteer arrivals 1/	X$ 177	X$ 186	X$ 186	--
Total ($000	$ 642	$ 734	$ 803	+$ 69

1/ To the nearest dollar

Changes in Leave Allowance

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer manyears	6,632	6,882	5,950	- 932
Average cost per volunteer manyear 1/	X$ 217	X$ 216	X$ 216	--
Total ($000)	$1,437	$1,482	$1,285	-$197

1/ To the nearest dollar

The same average cost per volunteer manyear will be maintained for each of the allowances as in FY 1973. Both the living allowance and the leave allowance totals will decrease in FY 1974 primarily because of the 932 manyear decrease from FY 1973. These decreases are offset by an expected increase of $69,000 in settling-in allowance. This increase is the result of the planned increase of 383 volunteer arrivals during FY 1974.

Budget Activity 2C
OTHER VOLUNTEER SUPPORT

($000)

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Medical Supplies and Services	$1,557	$1,631	$1,434	-$ 197
In-Country Travel	501	551	488	- 63
Volunteer Supplies and Equipment	357	436	119	- 317
Vehicles (Purchased)	15	416	86	- 330
Vehicles (Shipped)	8	48	10	- 38
Bureau of Employment Compensation payments	693	962	997	+ 35
Miscellaneous Volunteer Costs	1,502	1,230	334	- 896
Total	$4,633	$5,274	$3,468	-$1,806

Other Volunteer Support covers most categories of expense in support of a volunteer in the field. These expenses are incurred by the volunteer in the course of his work, and are not paid routinely.

Medical Supplies and Services are provided to all volunteers. The cost of this medical care varies from country to country, but typically includes doctors' fees, hospital costs, medical supplies, dental care, and emergency evacuation travel to hospitals. Qualified host country doctors and facilities are utilized to the maximum extent possible in order to minimize costs.

Changes in Medical Supplies and Services

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer manyears	6,632	6,882	5,950	- 932
Average cost per volunteer manyear 1/	X$ 235	X$ 237	X$ 241	+ 4
Total ($000)	$1,557	$1,631	$1,434	-$197

1/ To the nearest dollar

The anticipated decrease of $197,000 between FY 1973 and FY 1974 is due to the 932 manyear decrease expected for FY 1974, offset by a $4 per manyear increase in the cost of medical services. The average cost per manyear is expected to increase primarily because of the rising medical costs being experienced in most Peace Corps countries.

In-Country Travel costs cover a volunteer's travel within country of assignment for purposes related to his work. Nearly all jobs performed by volunteers require travel at some time. The actual expenses are reimbursed to the volunteers as travel is performed.

Changes in In-Country Travel

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer manyears	6,632	6,882	5,950	- 932
Average cost per volunteer manyear 1/	X$ 76	X$ 80	X$ 82	+ 2
Total ($000)	$ 501	$ 551	$ 488	-$ 63

1/ To the nearest dollar

The anticipated decrease of $63,000 between FY 1973 and FY 1974 is due to the decrease in the number of manyears expected for FY 1974, offset by a $2 per manyear increase in the cost of in-country travel. The $2 increase is expected because of rising airfares in some Peace Corps countries.

Volunteer Supplies and Equipment costs cover the supplies and equipment required by volunteers in their job assignments. Peace Corps plans to fund only those supplies that cannot be procured from the host country government. These materials vary according to the country and job being performed, but typically include textbooks, teaching materials, and hand tools.

Changes in Volunteer Supplies and Equipment

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer manyears	6,632	6,882	5,950	- 932
Average cost per volunteer manyear 1/	X$ 54	X$ 63	X$ 20	- 43
Total ($000)	$ 357	$ 436	$ 119	-$317

1/ To the nearest dollar

The anticipated decrease of $317,000 between FY 1973 and FY 1974 is caused by both a $43 decrease in the average cost per volunteer manyear and a 932 manyear decrease.

The decrease in the average cost per manyear is the result of a policy decision by Peace Corps to encourage host countries to provide a greater proportion of job-related supplies and materials by reducing our share. Proportionally, the decrease in average cost per manyear accounts for $257,000 (81%) of the decrease and the decrease in manyears accounts for $60,000 (19%).

Vehicle Purchases and Shipment costs cover the procurement of vehicles for volunteer use. Approval for vehicle purchase occurs only when the host country is unable to provide the necessary transportation and the vehicle is vital to implementing a project. Approximately half of the vehicles are purchased in the United States and the cost of shipment must be borne by the Peace Corps.

Changes in Vehicle Purchases

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of purchases	5	130	27	- 103
Average cost per vehicle 1/	X$3,000	X$3,200	X$3,200	--
Total ($000)	$ 15	$ 416	$ 86	-$330

1/ To the nearest dollar

Changes in Vehicle Shipment

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of shipments	10	60	13	- 47
Average cost per shipment 1/	X$800	X$800	X$800	--
Total ($000)	$ 8	$ 48	$ 10	-$38

1/ To the nearest dollar

Following a very restrictive policy of procuring only emergency vehicles in FY 1972, it was necessary to replace a large number of vehicles in FY 1973. In FY 1974 a normal replacement policy will be resumed.

The anticipated decrease in vehicle purchases between FY 1973 and FY 1974 of $330,000 and the corresponding decrease in shipment costs of $38,000 is the result of these decisions.

The Bureau of Employment Compensation adjudicates all cases requiring compensation of Peace Corps volunteers under the Federal Employees Compensation Act. At the end of each fiscal year, ACTION is required to reimburse the Department of Labor for all compensation dispensed. The estimates of $962,000 for FY 1973 and $997,000 for FY 1974 are based on data received from the Department of Labor.

Miscellaneous Volunteer Costs fund a variety of small requirements for the support of the volunteers. These costs include volunteer household items, printing, vehicle maintenance and repair, and before FY 1974, rental of housing not funded in the living allowance.

Miscellaneous Volunteer Costs

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer manyears	6,632	6,882	5,950	- 932
Average cost per volunteer manyear 1/	X$ 226	X$ 179	X$ 56	- 123
Total ($000)	$1,502	$1,230	$ 334	-$896

1/ To the nearest dollar

The anticipated decrease of $896,000 between FY 1973 and FY 1974 is the result both of a 932 volunteer manyear decrease and a $123 per volunteer manyear decrease. The $123 per volunteer decrease results from the absorbing of the volunteer household items under the current settling-in allowance and volunteer rental housing under the current living allowance. Proportionally, the 932 manyear decrease accounts for 19% ($166,000) of the total and the $123 per volunteer cost decrease accounts for 81% ($730,000).

Budget Activity 2D

DEPENDENT SUPPORT

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Dependent Support	$1,157	$682	$333	-$349

To obtain volunteers to fill certain scarce-skill jobs, it is necessary to accept married volunteers with children. The cost of supporting these children is included in this category. For each child, funding is provided for international and in-country travel, food and lodging, clothing, medical care, education (if applicable), and other incidental expenses.

Changes in Dependent Support

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of children	612	361	175	- 186
Average cost per child 1/	X$1,890	X$1,890	X$1,900	+ 10
Total ($000)	$1,157	$ 682	$ 333	-$349

1/ To the nearest dollar

The anticipated decrease of $349,000 between FY 1973 and FY 1974 is the result of a reduction of 196 in the number of children, offset by a $10 per child increase in average cost. The 196 child decrease is planned because of a policy decision to accept only families with two or fewer children. The $10 per child increase in dependent costs is anticipated because of cost increases in medical care, education, and some travel costs.

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Budget Activity 2E
READJUSTMENT ALLOWANCE

($000)

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Readjustment Allowance	$7,595	$7,663	$6,856	-$807

As provided in the Peace Corps Act, each regular volunteer receives $75 for each month of service while each leader volunteer receives $125 for each month. These amounts are deposited in a Treasury Account each month and accumulated for payment to the volunteer upon completion of service. In addition, the Peace Corps contributes payments as prescribed under the Federal Insurance Contribution Act (FICA). This allowance provides the returning volunteer with living costs until he secures a job or returns to school. This amount has not changed since the inception of the Peace Corps in 1961.

Changes in Readjustment Allowance

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer and trainee manyears	7,854	7,924	7,090	- 834
Average cost per volunteer and trainee manyear 1/	X$ 967	X$ 967	X$ 967	--
Total ($000)	$7,595	$7,663	$6,856	-$807

1/ To the nearest dollar

The anticipated decrease of $807,000 is due to the decrease of 932 volunteer man-years and an increase of 98 trainee man-years expected between FY 1973 and FY 1974.

Budget Activity 3
PROGRAM SUPPORT

	($000) FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
A. International Operations Staff Costs	$16,307	$15,858	$14,909	-$ 949
B. Shared Administrative Support	3,600	4,017	4,200	+ 183
C. Multilateral Grants	100	350	350	--
D. Peace Corps Share of Agency-wide Support 1/	12,973	13,058	12,656	- 402
Total	$32,980	$33,283	$32,115	-$1,168

1/ Justification for these amounts is included in the section entitled Agency-wide Support beginning on page 4-1.

General Statement

Peace Corps (International Operations) staff is needed to develop and maintain effective programs abroad. Overseas staff begin detailed planning for prospective volunteer jobs approximately one year before the volunteers complete training and begin work. Thorough discussions are held with appropriate host country officials to assess the need for the requested volunteers and the viability of the jobs. When agreement is reached between the host government and resident Peace Corps staff, necessary requests are prepared detailing the job requirements and establishing the required volunteers' qualifications.

In addition to a variety of other planning responsibilities, field staff must provide administrative and technical support to volunteers already on the job and supervise the increasing number of in-country training programs. All staff, including program, administrative, medical, and clerical personnel, must have diplomatic as well as technical abilities. Whether staff members are host country nationals or Americans, they are in daily contact with host country officials, volunteers, American Embassy staff, and host country citizens. Additional post support is provided through the State Department's Shared Administrative Support System (SAS).

Washington staff reviews and approves all program and administrative requests from the field. They also provide technical, programmatic, and administrative support to field staff and volunteers, work with host country embassies in Washington, develop policy, and provide general direction to overseas programming. Washington staff help plan training programs, develop training models, and conduct stagings prior to commencement of training. The additional supporting functions performed in Washington such as recruiting, accounting, public affairs, and general counsel are provided by ACTION support offices.

Budget Activity 3A
INTERNATIONAL OPERATIONS STAFF COSTS

($000)

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Washington Staff				
Salaries	$ 2,606	$ 2,716	$ 2,622	-$ 94
Benefits	212	221	213	- 8
Travel	412	396	338	- 58
Contracts	568	561	241	- 320
Other operating costs	80	42	40	- 2
Washington Staff, Subtotal	$ 3,878	$ 3,936	$ 3,454	-$482
Overseas Staff				
Salaries	$ 7,430	$ 6,829	$ 6,693	-$136
Benefits	372	341	334	- 7
Travel	1,375	1,421	1,459	+ 38
Education allowance	186	158	135	- 23
Staff housing	1,058	950	860	- 90
Office rents, utilities	634	830	860	+ 30
Maintenance, general services	474	516	426	- 90
Other operating costs	900	877	688	- 189
Overseas Staff, Subtotal	$12,429	$11,922	$11,455	-$467
Total Staff, Washington and Overseas	$16,307	$15,858	$14,909	-$949
Planned Positions				
U.S. Staff, Washington	164	164	162	- 2
U.S. Staff, Overseas	270	270	254	- 16
Foreign Service Locals	315	315	325	+ 10
Total Permanent Staff	749	749	741	- 8

Changes in Washington Staff - Salaries and Benefits

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Salaries and Benefits ($000)	$2,818	$2,937	$2,835	-$102
Planned Positions	164	164	162	- 2

Salaries and benefits for Washington Staff are expected to decrease between FY 1973 and FY 1974 by $102,000. $94,000 of the $102,000 decrease is a total salary decrease based on a reduction of two in the number of planned positions and on an average salary decrease of $376 per employee. The $376 per employee average salary decrease is the consequence of the effort by Peace Corps to reduce the average grade of its staff. An $8,000 decrease in benefits is directly related to the total salary decrease, as benefits are estimated to be 8.12% of salaries.

Changes in Washington Staff - Travel

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
International Travel				
Number of trips	250	217	170	- 47
Average cost per trip 1/	X$1,648	X$1,636	X$1,635	- 1
Subtotal ($000)	$ 412	$ 355	$ 278	-$ 77
Domestic Travel				
Number of trips	--	200	300	+ 100
Average cost per trip 1/	--	X$ 205	X$ 200	-$
Subtotal ($000)	--	$ 41	$ 60	+$ 19
Total, International and Domestic Travel ($000)	$ 412	$ 396	$ 338	-$ 58

1/ To the nearest dollar

International travel enables Washington staff to visit posts to gain a firsthand understanding of overseas problems, and to provide technical support. Domestic travel is for Washington staff attendance

at PRIST's. The decline in funds required for travel in FY 1974 reflects an increase of 100 in the number of domestic trips and a decrease of 47 in the number of international trips. Domestic trips are increasing in FY 1974 because of the planned 910 increase in the number of PRISTees. The average cost per trip, in the case of Washington staff, includes both airfare and per diem allowances.

Changes in Washington Staff - Contracts

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Contracts	$568	$561	$241	-$320

Contracts enable the Peace Corps to acquire expertise outside the regular staff for special temporary projects. Contractual costs are expected to decrease by $320,000 between FY 1973 and FY 1974 because of reduced special requirements.

Changes in Washington Staff - Other Operating Costs

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Washington staff - other operating costs	$80	$42	$40	-$2

Other operating expenses contains two components: transportation of things and staff supplies and equipment. Transportation costs are expected to remain at the $12,000 level in both FY 1973 and FY 1974. Supplies and equipment costs are expected to decrease from $30,000 in FY 1973 to $28,000 in FY 1974.

Changes in Overseas Staff - Salaries and Benefits

Salaries and Benefits

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
U.S. Citizens	$5,609	$5,200	$5,003	-$197
Foreign Nationals	1,342	1,314	1,421	+ 107
Personal Service Contracts	851	656	603	- 53
Total	$7,802	$7,170	$7,027	-$143

Planned Positions

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
U.S. Citizens	270	270	254	-16
Foreign Nationals	315	315	325	+10
Total, Permanent Positions Overseas	585	585	579	- 6
Personal Service Contracts	240	208	208	--

Salaries and benefits for staff overseas include compensation to U.S. Citizens, foreign nationals, and temporary employees under Personal Service Contracts (PSC).

Total salaries and benefits for overseas staff are expected to decrease by $143,000 between FY 1973 and FY 1974. This total salaries and benefits decrease includes a $197,000 decrease for U.S. Citizens overseas, a $107,000 increase for Foreign Nationals, and a $53,000 decrease for Personal Service Contracts. The $197,000 decrease for U.S. Citizens overseas reflects a planned reduction of 16 positions. This includes a reallocation of 10 positions presently filled with U.S. Citizens to be filled with foreign nationals. The transfer of positions from U.S. Citizens to foreign nationals furthers the Peace Corps policy of using host country nationals whenever possible. The increase of $107,000 in foreign national salaries and benefits reflects the 10 additional foreign national positions and an average salary increase of $246 per foreign national employee. The foreign national salary increase is based on wage surveys conducted by American embassies at post. Total salaries under Personal Service Contracts are expected to decrease by $53,000 reflecting an anticipated decrease in the average length of contracts.

Changes in Overseas Staff - Travel

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Staff Assignment-Return				
Number of trips	134	142	135	- 7
Average cost per trip	X$5,000	X$5,000	X$5,000	--
Subtotal ($000)	$ 670	$ 710	$ 675	-$34
International Travel (Operational, PRIST/Staging)				
Number of trips	337	340	383	+ 43
Average cost per trip 1/	X$1,646	X$1,638	X$1,638	--
Subtotal ($000)	$ 555	$ 557	$ 628	+$71
In-Country Travel				
Overseas professional staff	375	375	375	--
Average annual cost per professional staff 1/	X$ 400	X$ 411	X$ 416	+ 5
Subtotal ($000)	$ 150	$ 154	$ 156	+$ 2
Total, International and In-Country Travel ($000)	$1,375	$1,421	$1,459	+$38

1/ To the nearest dollar

Overseas international travel consists of staff assignment/return travel, operational travel, and PRIST's/staging travel. Assignment/return travel results from staff reaching their five-year limitation as well as normal turnover. Most operational travel is for regional or sub-regional conferences, consultation with Washington, and exploration of programming/training alternatives in new countries. PRIST/staging travel is travel of overseas staff to particpate in PRIST's or stagings. Overseas staff travel also includes the in-country travel of post staff to visit volunteer work sites.

Average cost per trip for staff assignment/return travel includes airfare for an average family of four, and shipment and storage of household goods. Average cost per trip for international operational and PRIST/staging travel includes round-trip airfare and per diem allowances.

Overseas travel is increasing in FY 1974 because of the increase of 910 PRISTees and the increased participation of overseas staff in PRIST's.

Changes in Overseas Staff - Education Allowance

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of dependents	510	510	435	- 75
Average cost per dependent 1/	X$365	X$310	X$310	--
Total ($000)	$186	$158	$135	-$23

1/ To the nearest dollar

The education allowance is given to American staff overseas with school-age children. The 254 Americans overseas in FY 1974 will have approximately 435 school-age children. The estimated decrease of $123,000 in education allowance between FY 1973 and FY 1974 reflects an anticipated decrease of 75 in the number of school-age dependents.

Changes in Overseas Staff - Housing

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Number of U.S. staff	270	270	254	- 16
Average cost per staff 1/	X$3,918	X$3,519	X$3,386	-$133
Total ($000)	$1,058	$ 950	$ 860	-$ 90

1/ To the nearest dollar

Overseas staff housing includes both quarter's allowance (a direct payment to the staff member) and residential rents and utilities (Peace Corps pays the landlord directly). The anticipated $90,000 decrease reflects a reduction of 16 in the number of staff and a $133 per U.S. employee decrease in housing costs. The average cost per employee reduction is a consequence of a continuing shift of payments to a standard quarters allowance from the variable residential rents and utilities.

Changes in Office Rents, Communications, and Utilities

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Office rents, communications, and utilities	$634	$830	$860	+$30

Office rents, communications, and utilities cover the expense of maintaining overseas staff offices. They are expected to increase by $30,000 in FY 1974 because of increases in number of countries.

Changes in Overseas Maintenance - General Services Costs

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Maintenance - General Service Costs	$474	$516	$426	-$90

Maintenance and general services costs include janitorial, watchman, maintenance, repair, and upkeep services for overseas facilities and equipment. Costs are expected to decrease by $90,000 based on current estimates of fixed contractual costs.

Changes in Overseas Staff - Other Operating Costs

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Overseas staff - other operating costs	$900	$877	$688	-$189

Other operating costs include supplies, equipment, and transportation of things. A decrease of $189,000 between FY 1973 and FY 1974 is anticipated based on efforts to encourage host country governments to meet supply and equipment needs and based on a reduction of 16 U.S. citizen positions and consequent transportation savings. Supplies and equipment are expected to cost $500,000 in FY 1974 and transportation of things $188,000.

Budget Activity 3B
SHARED ADMINISTRATIVE SUPPORT

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Shared Administrative Support (SAS)	$3,600	$4,017	$4,200	+$183

The Peace Corps and other federal agencies overseas have contracted with the U.S. Department of State to purchase various administrative services in support of their overseas staff. The State Department through Shared Administrative Support provides the Peace Corps with services such as budgeting and accounting, communications, security, purchasing, and a variety of other logistical services. The exact services provided vary among countries, and are negotiated by the overseas Peace Corps staff and the U.S. Embassy in each country.

SAS is only one means of providing this support in overseas locations. As with every other part of program support, SAS is being reviewed to ascertain whether it still provides the best and least costly method of procuring this support.

An increase of $183,000 in total SAS costs is anticipated in FY 1974 based on a determination by the Peace Corps to work with the State Department to hold cost increases to a minimum.

Budget Activity 3C
MULTILATERAL GRANTS

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Multilateral Grants	$100	$350	$350	--

Congress approved Title III of the Peace Corps Act in 1963 to encourage the development, and participation in, international voluntary service programs. In FY 1973, the Peace Corps was involved in four international programs. The amount dispersed to help support these programs was $350,000. In FY 1974, the Peace Corps is requesting the same level of funding.

The U. N. Volunteer Service Program commenced operations in January 1971 following authorization by the U. N. General Assembly. At present, volunteers serve in 8 countries. Nineteen additional countries have expressed interest in the program. UNV anticipates a total of 260 volunteers in the field by the end of FY 1973. Contributions to the fund are made by the member nations and by private organizations.

The International Secretariat for Volunteer Services provides support and assistance to national and international volunteer service programs. It serves as an information and experience clearinghouse and encourages the formation of new volunteer service programs. It recently has begun to mount multi-national volunteer teams. It estimates a minimum of 100 volunteers will be serving in FY 1974.

International Volunteer Services (IVS) is a private non-profit organization which provides volunteers to developing countries. Recruitment is worldwide. IVS currently has 15 volunteers in the field and plans additional projects in Africa and the Middle East during FY 1974.

The Joint Volunteer Committee of Ghana is composed of Canada, U.S., Germany, and Britain. It was formed in FY 1972 to develop multi-national projects in Ghana.

ACTION Agency-Wide Support Costs

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Funded by:				
1. Peace Corps, ACTION International Programs	$12,973	$13,058	$12,656	-$ 402
2. Operating Expenses, Domestic Programs	6,713	7,413	6,439	- 974
Total	$19,686	$20,471	$19,095	-$1,376

Introduction

ACTION is organized so that certain administrative functions which support the Peace Corps and domestic volunteer programs are conducted on a consolidated basis and financed jointly by the program appropriations. These administrative functions are referred to as ACTION agency-wide support. Examples of agency-wide support are volunteer recruitment and related costs, new program development and planning, and such staff efforts as legal counsel, personnel management, minority affairs, budget and accounting.

Because these are consolidated functions, there is no precise means of specifically dividing these costs between the Peace Corps and domestic programs. Therefore, the total of these costs is divided statistically, as was concurred in by the Congress in FY 1973. For FY 1974, the Peace Corps budget request includes $12.7 million for this purpose.

The formula for determining the contribution of each appropriation is based on workload as expressed by the ratio of full-time staff employed by the Peace Corps versus the full-time staff employed by the domestic programs. This is the same formula utilized in FY 1972 and FY 1973 and has the advantage of being readily understandable and, at the same time, administratively uncomplicated.

The method utilized to allocate costs by appropriation for FY 1974 is explained in the following table.

Allocation of Agency-Wide Support Costs
by Appropriation (FY 1974)
($000)

FY 1974 permanent positions	
Peace Corps appropriation	741
Domestic Programs appropriation	377
Total Peace Corps and Domestic positions	1,118
Peace Corps positions as percentage of 1,118	66.3%
Domestic positions as percentage of 1,118	33.7%
FY 1974 ACTION Agency-wide Support costs	$19,095
Peace Corps appropriation share ($19,095 X 66.3%)	12,656
Domestic appropriation share ($19,095 X 33.7%)	6,439

Agency-wide support funds are programmed in the following categories in FY 1974:

	($000)			
	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Recruitment, Selection and Placement (volunteers)	$ 7,080	$ 7,214	$ 7,197	-$ 17
Policy and Program Development	986	767	467	- 300
Management and Administration	11,620	12,490	11,431	- 1,059
Total	$19,686	$20,471	$19,095	-$1,376

A description of these activities and justification of the FY 1974 funding request are provided in the following pages.

RECRUITMENT, SELECTION, AND PLACEMENT

($000)

	FY 1972 Actual		FY 1973 Estimate		FY 1974 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel Compensation and benefits	226	$4,655	223	$4,624	223	$4,552	---	-$72
Other expenses	---	2,425	---	2,590	---	2,645	---	+ 55
Total	226	$7,080	223	$7,214	223	$7,197	---	-$17

General Statement

Recruitment, selection, and placement of volunteers is conducted by the Office of Citizens Placement to insure that a sufficient number of well-qualified volunteers is available for volunteer programs on a timely basis. This function includes the identification of potential volunteers, processing of applications, matching of volunteers skills with program requirement, and related tasks.

To accomplish this task, the Office of Citizens Placement is organized into a Washington headquarters office and regional recruitment offices in Boston, Atlanta, Chicago, and San Francisco. Supporting the regional offices are area offices to insure that recruitment efforts are centered nearest the sources of potential volunteers. Functions emphasized in headquarters are the overall direction of the recruiting effort, processing and recordkeeping of applications, and the placement of potential volunteers in specific Peace Corps, VISTA, and other programs for which they are qualified.

Prior to the creation of ACTION, these tasks were performed independently for each volunteer service activity by the then responsible federal agency. Thus, the merger of volunteer programs has allowed interchange of applicants among the various volunteer programs and has resulted in a single, more streamlined and economical structure for identifying, processing and placing volunteers.

Budget Justification

	FY 1972 Actual	FY 1973 Estimate	FY 1974 Estimate	Increase or Decrease
Volunteer applicants	51,000	73,000	83,000	+10,000
Trainees	7,992	11,448	12,172	+ 724

An effective recruitment effort is a mandatory element in the overall success of volunteer programs. This is especially true when highly skilled volunteers are being sought, as for the Peace Corps, VISTA, and Cooperative Programs. For FY 1974, the Office of Citizens Placement will continue to recruit well-qualified volunteers to meet the program needs detailed in the Peace Corps and Domestic appropriations requests.

Budget requirements for recruitment, selection, and placement are based primarily on anticipated levels of volunteer applicants and trainees as reflected above. In FY 1974, the Office of Citizens Placement will be assuming a larger role in (1) the recruitment of elderly volunteers for ACTION programs, (2) assisting membership drives for SCORE/ACE chapters, and (3) increased participation in locating volunteers for cooperative and developmental programs. In addition, the Office of Citizens Placement's responsibilities for the University Year for ACTION (UYA) program will increase as the number of UYA trainees increases in FY 1974.

Other workload factors supporting the FY 1974 request include increased minority recruitment activity to enable selection of volunteers from the broadest possible base, bringing more varied and potentially more pertinent backgrounds to Peace Corps, VISTA, and other programs. Also, six additional area recruiting offices will be established, thus providing for continuing recruitment efforts in the country's top metropolitan markets and intensifying recruitment of potential volunteers with agricultural skills currently in heavy demand by the Peace Corps. These recruitment efforts are mandatory if FY 1974 program goals are to be met.

Funds requested for recruitment, selection and placement activities in FY 1974 are $7,197,000, a decrease of $17 thousand compared to the FY 1973 level of $7,214,000. In terms of the economies realized from merging the various volunteer programs, it is estimated that these same recruitment efforts would have required funds in the amount of $13,068,200 had not ACTION been created to combine these programs. Thus, in FY 1974 alone, consolidated recruitment offers a savings of approximately $5.8 million compared with the resources required if each program conducted separate recruitment efforts.

Included in the FY 1974 estimate is a decrease of $72 thousand for personnel compensation and benefits due to efforts to reduce average grade and average salary. The increase of $55 thousand for other expenses provides for increased minority advertising as previously mentioned, for increased application printing and related recruitment materials, and for an increased amount of classified advertising which has proven to be successful as a means of recruiting hard-to-find skills at relatively modest costs.

POLICY AND PROGRAM DEVELOPMENT

($000)

	FY 1972 Actual		FY 1973 Estimate		FY 1974 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel Compensation and benefits	23	$585	7	$140	7	$140	--	$ --
Other expenses	--	401	--	627	--	327	--	- 300
Total	23a/	$986	7	$767	7	$467	--	-$300

a/ Includes 14 positions supporting domestic programs transferred to Operating Expenses, Domestic Programs in FY 1973 and FY 1974.

General Statement

New program initiatives are the responsibility of the Office of Policy and Program Development. This office is also responsible for agency planning and broad evaluation of new voluntary concepts. Once a new program has passed the development phase and has demonstrated its feasibility through sufficient operating experience, it is transferred to the Peace Corps or domestic programs area for subsequent management.

New concepts in voluntary action are necessary to solve anti-poverty and related problems and to utilize available resources in the person of willing volunteers of all ages. This office develops the means of applying these resources to help solve known problems in a cost-effective manner. Using in-house staff, consultation and research, plans for new programs are developed, and broad evaluations of voluntary concepts are conducted. Based on past success with the University Year for ACTION program developed by this office, resources programmed for these purposes represent a modest investment in terms of the results achieved. This office has developed the cooperative programs concept which has high potential to spur the growth of voluntary action.

Budget Justification

$467,000 is requested for FY 1974. Of this amount, an estimated $300,000 will be devoted to contracts for program research, development, planning, and evaluation. The remaining funds will be utilized for staff salaries and benefits and for travel. The funds requested represent the minimum amount necessary to conduct a meaningful program.

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MANAGEMENT AND ADMINISTRATION

($000)

	FY 1972 Actual		FY 1973 Estimate		FY 1974 Estimate		Increase or Decrease	
	Pos.	Amount	Pos.	Amount	Pos.	Amount	Pos.	Amount
Personnel compensation and benefits	329	$ 6,402	331	$ 6,611	339	$ 6,158	+8	-$453
Other expenses	---	5,218	---	5,879	---	5,273	--	- 606
Total	329	$11,620	331	$12,490	339	$11,431	+8	-$1,059

General Statement

Management and Administration includes traditional staff and related administrative services which are mandatory to efficient execution of volunteer programs. Staff services provided include legal counsel, public, legislative and minority affairs, internal audit, staff recruitment, assistance for volunteers ending service, and the immediate office of the agency director. Other services provided for are management analysis, financial, procurement and personnel management, staff training, and accounting, computer and administrative services.

These funds are utilized to provide essential and necessary management and administrative services in two categories: staff offices and administration and finance.

A listing of staff offices and a brief description of their functions follow:

(1) Legal Counsel - provides legal services especially with respect to legislative and volunteer matters.

(2) Public Affairs - directs advertising programs for volunteer recruitment and provides liaison with all communications channels.

(3) Congressional Affairs - provides legislative liaison services with the Congress.

(4) Minority Affairs - is responsible for directing the agency's equal employment opportunity programs and also provides assistance in minority recruiting of staff and volunteers.

(5) Internal Audit - provides intra-agency audit services, especially emphasizing improved administrative procedures. The office reports to the agency director for maximum effectiveness.

(6) Staff Recruitment - provides recruitment services necessary for filling senior level positions in the agency.

(7) Voluntary Action Liaison - provides intercommunication with other public and private volunteer organizations and career counseling and information on job opportunities to volunteers ending their tours of service.

(8) Office of the Director - includes the agency director and deputy and immediate staff.

Administrative and Financial functions budgeted are:

(1) Management Analysis - provides comparative and other types of analyses on substantive matters of importance within the agency.

(2) Personnel - does the majority of the agency's staff recruiting administers the merit promotion program, and accomplishes other personnel functions.

(3) Employee Development and Training - provides orientation and other generalized and specialized training for the Washington and regional staffs.

(4) Procurement - accomplishes the contracting and granting of funds to private sources.

(5) Budget - provides the necessary services to formulate, present, and execute ACTION's financial program.

(6) Accounting - is responsible for domestic payroll functions and all fiscal record keeping, including staff and volunteers.

(7) Computer Services - are provided to assure accurate and timely volunteer, financial, and personnel records.

(8) Administrative Services - takes in a broad range of activities including printing, mailing, duplicating, property management, telephone services, and transportation.

All administrative and financial functions listed are accomplished under the direction of the Associate Director for Administration and Finance.

Budget Justification

$11.4 million is requested for Management and Administration in FY 1974. This amount is $1.1 million below the FY 1973 estimate and reflects a continuing effort to minimize resources programmed for other than direct volunteer costs.

The funding request provides for a decrease of $453 thousand for personnel compensation and benefits. This decrease is based on a lower level of intermittent and temporary employment, reduced overtime requirements and reduced costs due to a decreasing employee average grade. Lower costs in these areas are partially offset by an increase of eight positions resulting from assumption at ACTION headquarters of the VISTA volunteer payroll, formerly accomplished by the Army Finance Center, Indianapolis, Indiana.

"Other expenses" are requested at a level $606 thousand less than FY 1973. The major items included in this category are postal fees and mailing services, computer operations, telephone services, printing, and staff travel. The reduction in FY 1974 results primarily from the acquisition at ACTION headquarters of the VISTA volunteer payroll system. Amounts for this purpose were previously provided to the Army utilizing a contractual arrangement and were budgeted under "other expenses" in FY 1973. The remainder of the reduction results from decreased requirements for public affairs, background investigations, and training for ACTION staff.

APPENDIX A: Peace Corps Statement of Authorizations and Appropriations FY 1962 - FY 1974
($000)

Fiscal Year	Original Authority & Budget Request	Amended Budget	Authorized	Appropriated (Including Reappropriation)	Appropriation Transfers To GSA	Allocation from AID	Obligated as of June 30	Unobligated as of June 30	Reappropriated
1962	$40,000	$---	$ 40,000	$ 30,000	$ ---	$ ---	$ 29,496	$ 504	$ ---
1963	63,750	---	63,750	59,000	444	---	54,692	3,864	3,864
1964	108,000	102,000	102,000	95,964	---	---	76,164	19,800	17,000
1965	115,000	106,100	115,000	104,100	7	---	85,449	18,644	12,100
1966	125,200	---	115,000	114,100	---	---	113,173	927	---
1967	110,500	112,150	110,000	110,000	104	---	104,525	5,371	---
1968	124,400	118,700	115,700	107,500	---	---	106,846	654	---
1969	112,800	---	112,800	102,000	49	---	100,301	1,650	---
1970	109,800	101,100	98,450	98,450	---	---	90,776	7,674	---
1971	98,800	94,500	94,500	90,000	---	---	84,978	5,022	---
1972	71,200	82,200	77,200	72,500	---	2,600	75,037	63	---
1973	88,027	---	88,027	81,000 1/	158	---	80,842	---	---
1974	77,001	---							

1/ The appropriation had not been enacted at the time this table was prepared. A continuing resolution is in effect through June 30, 1973.

APPENDIX B - Schedule of Host Country Contributions By Region FY 1964 - FY 1974
($000)

	Actual									Estimated	
	FY 1964	FY 1965	FY 1966	FY 1967	FY 1968	FY 1969	FY 1970	FY 1971	FY 1972	FY 1973	FY 1974
Africa	$1,832	$2,718	$2,906	$2,380	$1,885	$1,624	$1,270	$1,167	$1,179	$2,176	$2,285
Latin America	232	172	191	180	219	241	343	283	232	268	281
North Africa, Near East Asia, & Pacific	726	566	884	1,014	861	1,626	892	755	853	784	823
Total	$2,790	$3,456	$3,981	$3,574	$2,965	$3,491	$2,505	$2,205	$2,264	$3,228	$3,389

APPENDIX D: Allocation of Trainees and Volunteers by Country

Africa 1/	(On-Board Strength as of 6/30) FY 1972 Actual	FY 1973 Estimated	FY 1974 Estimated
Botswana	71	70	65
Cameroon	77	71	73
Central African Republic	--	17	18
Chad	48	34	34
Dahomey	53	68	68
Ethiopia	176	284	276
Gambia	67	48	47
Ghana	282	179	175
Ivory Coast	75	41	40
Kenya	271	230	226
Lesotho	43	39	41
Liberia	290	308	301
Malawi	19	42	43
Mali	13	18	20
Mauritius	19	12	11
Niger	71	90	86
Nigeria	--	7	7
Senegal/Mauritania 2/			
Senegal	80	75	72
Mauritania	2	4	5
Sierra Leone	156	146	144
Swaziland	80	104	98
Togo	61	62	62
Uganda 3/	71	--	--
Upper Volta	59	60	58
Zaire	154	259	252
Subtotal	2,238	2,268	2,222
Latin America			
Brazil	257	376	462
British Honduras	36	54	49
Chile	50	56	48
Colombia	179	290	290
Costa Rica	76	58	66
Dominican Republic	74	66	63
Eastern Caribbean 2/			
Antigua	32	43	42
Barbados	34	47	45
Grenada	30	41	40
Montserrat	8	11	10
St. Kitts-Nevis	14	19	18
St. Lucia	16	22	22
St. Vincent	22	29	29

APPENDIX D: Allocation of Trainees and Volunteers by Country - continued

Latin America	(On-Board Strength as of 6/30) FY 1972 Actual	FY 1973 Estimated	FY 1974 Estimated
Ecuador	200	164	171
El Salvador	57	97	86
Guatemala	83	103	101
Honduras	113	125	116
Jamaica	121	208	208
Nicaragua	66	53	79
Paraguay	51	59	64
Peru	129	74	80
Uruguay	8	15	17
Venezuela	163	189	195
Subtotal	1,819	2,199	2,301
North Africa, Near East Asia and Pacific 1/			
Afghanistan	167	240	209
Arabian Peninsula 2/			
Bahrain	--	11	20
Oman	--	21	36
Yemen	--	16	27
Fiji	108	94	98
India	264	50	48
Iran	210	212	233
Korea	268	323	281
Malaysia	334	384	332
Malta	5	4	4
Micronesia	329	263	230
Morocco	220	185	157
Nepal	150	180	156
Philippines	180	410	357
Solomon Islands	8	9	9
South Pacific Commission 4/	1	1	1
Thailand	293	279	241
Tonga	79	92	80
Tunisia	145	188	166
Western Samoa	76	64	57
Subtotal	2,837	3,026	2,742
TOTALS	6,894	7,493	7,265

1/ Possible new countries in FY 1974 are Gabon, Seychelles in Africa and Cook Islands and Gilbert-Ellice Islands in the South Pacific.
2/ Administrative categories for internal use.
3/ Peace Corps terminated its program in Uganda in September of 1972.
4/ South Pacific Commission has its headquarters in New Caledonia.

APPENDIX E: FY 1974 Budget Estimates by Region and Country

Africa 1/	($000)
Botswana	$ 542
Cameroon	885
Central African Republic	68
Chad	509
Dahomey	499
Ethiopia	2,483
Gambia	333
Ghana	1,560
Ivory Coast	1,153
Kenya	1,845
Lesotho	224
Liberia	2,498
Malawi	266
Mali	352
Mauritius	126
Niger	677
Nigeria	27
Senegal/Mauritania 2/	
Senegal	714
Mauritania	50
Sierra Leone	1,366
Swaziland	582
Togo	933
Uganda 3/	--
Upper Volta	574
Zaire	1,718
Africa Regional Support	1,757
Total, Africa Region	$21,741
Latin America	
Brazil	3,232
British Honduras	188
Chile	414
Colombia	1,761
Costa Rica	562
Dominican Republic	541
Eastern Caribbean	
Antigua	161
Barbados	173
Grenada	154
Montserrat	38
St. Kitts-Nevis	69
St. Lucia	85
St. Vincent	111

APPENDIX E: FY 1974 Budget Estimates by Region and Country - continued

Latin America	($000)
Ecuador	$ 1,284
El Salvador	411
Guatemala	646
Honduras	775
Jamaica	981
Nicaragua	451
Paraguay	416
Peru	1,080
Uruguay	117
Venezuela	1,285
Latin America Regional Support	2,699
Total, Latin America Region	$17,634

North Africa, Near East Asia and Pacific 1/	
Afghanistan	$ 1,348
Arabian Peninsula 2/	
Bahrain	105
Oman	188
Yemen	141
Fiji	578
India	514
Iran	1,322
Korea	1,904
Malaysia	2,391
Malta	4
Micronesia	1,593
Morocco	1,292
Nepal	990
Philippines	1,617
Solomon Islands	19
South Pacific Commission 4/	3
Thailand	1,699
Tonga	342
Tunisia	880
Western Samoa	405
North Africa, Near East, Asia and Pacific Regional Support	1,296
Total, North Africa, Near East, Asia and Pacific Region	$18,631

APPENDIX E: FY 1974 Budget Estimates by Region and Country - continued

Summary	($000)
Africa	$21,741
Latin America	17,634
North Africa, Near East, Asia and Pacific	18,631
Worldwide Support	6,339
Peace Corps Share of ACTION Support	12,656
Total	$77,001

1/ Possible new countries in FY 1974 are Gabon, Seychelles in Africa and Cook Islands and Gilbert-Ellice Islands in the South Pacific.

2/ Administrative categories for internal use.

3/ Peace Corps terminated its program in Uganda in September of 1972.

4/ South Pacific Commission has its headquarters in New Caledonia.

Mr. PASSMAN. We would like to place in the record at this point some statistics on the request. I believe in the continuing resolution for 1973 $81 million was provided. Your estimate for fiscal year 1974 is $77,001,000; is that correct, sir?

Mr. HESS. Yes.

Mr. PASSMAN. Did you have any funds impounded or placed in budgetary reserve from the continuing resolution amount for fiscal year 1973?

Mr. HESS. No, sir; we did not.

Mr. PASSMAN. You are being allowed to obligate it all?

Mr. HESS. Yes.

BIOGRAPHIES

Mr. PASSMAN. We might insert in the record at this point the biographies of Mr. Hess and Mr. Howe.

[The information follows:]

WALTER C. HOWE, JR., DEPUTY DIRECTOR OF ACTION

Born March 2, 1934, in Portland, Oregon, Walter Charles Howe, Jr., most recently served as Director of the Office of Program Planning and Fiscal Management in the Office of Washington Governor Daniel J. Evans.

Appointed to this position in 1969, Mr. Howe was responsible for the central management of the government of the State of Washington, and his duties included direct supervision of the following governmental divisions: fiscal management; state planning; accounting; management services; data processing; planning and coordination; information systems. Additional responsibilities included the chairmanship of the Governor's Drug Abuse Task Force; Governor's Insurance Advisory Committee and the Washington Management Improvement Council.

From 1967 to 1969 Mr. Howe was Director of the Central Budget Agency of the State of Washington. This agency was later merged with several divisions of the State Planning and Community Affairs Agency to form the Office of Program Planning and Fiscal Management which Mr. Howe was later selected to administer.

As Legal Assistant to Governor Evans from 1965 to 1967, Mr. Howe advised the Governor on all legal matters relating to state government administration. Responsible for program development and legislative liaison and analysis, he served as executive staff liaison to all State of Washington human resource agencies.

Before entering public service, Mr. Howe from 1962 to 1965 engaged in the private practice of law with the Seattle firm of Holman, Mickelwait, Marion, Black & Perkins (now Perkins, Cole, Stone, Olsen & Williams).

Mr. Howe was graduated with honors from the University of Washington in 1956 with a BA degree in business administration. Winner of the Outstanding Law Graduate award, Mr. Howe received his LLB in 1962 from the University of Washington Law School. Prior to law school he had served for three years in the U.S. Air Force where he attained the rank of first lieutenant.

Mr. Howe is married to the former Theodora Brainschweiger, and they have two sons.

DONALD K. HESS, ASSOCIATE DIRECTOR OF ACTION FOR INTERNATIONAL OPERATIONS

Donald K. Hess was born in Lancaster County, Pa., in 1930. In 1952, he was graduated from Franklin and Marshall, Lancaster, Pa., and he completed his graduate work at the Maxwell School of Citizenship and Public Affairs, Syracuse University, in 1953.

He began his government career with the Atomic Energy Commission in 1953. With the launching of Sputnik in 1957, he was asked to assist in establishing and operating the Advance Research Projects Agency.

In 1966, Mr. Hess was appointed Associate Director of Community Action

Programs in the Office of Economic Opportunity, and was named a member of the Federal Government's Model Cities Steering Committee.

In April 1970, Mr. Hess was named Director of the Peace Corps in Korea where he lived with his family for two years until his appointment by the President as Associate Director for International Operations, ACTION. In this position, he is Director of the Peace Corps, which has about 7,000 Volunteers operating in 58 countries. He is also responsible for the U.S. volunteer operations with the United Nations Volunteer program and with other worldwide volunteer operations in which the United States is a participant.

Mr. PASSMAN. Let me yield to Mr. Roush at this time.

Mr. ROUSH. I have nothing, Mr. Chairman.

Mr. PASSMAN. Mr. Bevill, we are continuing our examination on the foreign aid budget requests. The spigot this afternoon is that of the Peace Corps. I will be happy to yield to you at this time.

Mr. BEVILL. Thank you, Mr. Chairman.

How much is it you are requesting at this time?

Mr. HESS. For fiscal year 1974 we are requesting $77 million.

Mr. BEVILL. And how does that compare with your request last year?

Mr. HESS. For fiscal year 1973 we requested $88 million; however we are under a continuing resolution of $81 million.

Mr. BEVILL. $4 million less this year?

Mr. HESS. That is correct.

Mr. BEVILL. How many personnel do you have on the payroll?

Mr. HESS. At this time, Mr. Congressman, we have 741 employees in the Peace Corps.

Mr. BEVILL. And what do you anticipate in the way of personnel reductions or increases for 1974?

Mr. HESS. For 1974, Mr. Congressman, we are anticipating a reduction of eight employees.

BENEFITS FROM PEACE CORPS

Mr. BEVILL. How would you describe the advantages and the benefits that the American taxpayers receive when we appropriate $77 million to the Peace Corps?

Mr. HESS. I think the benefits are many. For one thing, there are the benefits that accrue to those people in the countries where we serve, in terms of manpower training that we are providing to meet the needs in those countries.

A second benefit is that volunteers who serve in the Peace Corps become much better acquainted with the problems in foreign countries, familiar with the cultures of those countries, and are therefore, we feel, able to put America in a little bit better perspective in the world.

Third, Mr. Congressman, benefits accrue to the people in those countries, who associate on a daily basis with Peace Corps volunteers and gain a much better familiarity with Americans, who we are, how we think, and get to know us from perhaps a different perspective than from, say, some other Americans whom they might meet from time to time.

Mr. BEVILL. That is all I have. Thank you.

EXTENT OF AMERICA'S FINANCIAL PROBLEMS

Mr. PASSMAN. We are all American taxpayers. We know you are just as dedicated to your assignment as I am to mine, but I am of the opinion that in the future Members of Congress and personnel of the executive branch are going to have to work a little closer together to bring under control this wild spending spree that we have been on for about 25 years. I don't think you quarrel with that statement, do you?

Mr. HESS. No, sir.

Mr. PASSMAN. This is good for the record.

The U.S. trade deficit was the worst in its history in 1972. The actual trade deficit was $6,400 million. The 1971 trade deficit which was the first trade deficit that this country had had since 1888, was $2 billion. We have had some programs all over the world and all over the country labeled "Good" until we have spent so far in excess of our revenue that we have created inflation, which must be plowed back into the commodity, and has priced the United States out of the world market. Otherwise, I don't think we would have been running these trade deficits, so it is something that we all have to deal with.

We notice our balance-of-payments deficit in 1972 was $13,800 million, when measured on a net liquidity basis. This compares to a 1971 payment deficit of $22 billion. It has been estimated that dollar holdings abroad, that are due not today or tomorrow but were due several months ago, are $80 billion, not some bills, but actual dollars that foreign governments and foreign nationals are holding after they have met their commitments to commerce. They have accumulated an $80 billion surplus of American dollars.

A good many individuals are running from these dollars. In some places of the world now if you walk up with dollars the hotel clerk won't accept dollars in payment for your bill. You are familiar with this, I am sure. They are asking these people to discount the dollars. Many, many holders of these dollars are now exchanging them at a very substantial discount, for the German mark, the Swiss franc, the French franc, and the Japanese yen.

Gentlemen, it is rather embarrassing. We all share this embarrassment together, but it simply means that we can no longer continue trying to be everything to everybody, everywhere on borrowed money and at the expense of unborn generations. We are nickeling and diming the American people to death. You just can't take out of the economy as much money as some people want, to fund all these programs. So by working together maybe we can cut it down, because we are all responsible Americans.

When I came here over 26 years ago, we had a public debt of $159 billion. From that period, the subsequent 26 years happened to be the most prosperous period in the history of America, and the greatest income era in the history of America, but nevertheless we have pushed our public debt up from $159 billion to $455 billion. This is just the borrowed money part of it. The interest alone is now running at $66 million per day. At least this is something for us to look at.

I think you agree with me that basically an individual's first duty is to his own family, and as we think of ourselves as Americans, our

first duty is to the programs in our own country, whether it is the Post Office Department, the Department of the Interior or Defense. You agree, do you not, that our first responsibility is to our own country?

Mr. HESS. Yes, sir.

Mr. PASSMAN. I would hope so. It follows that on these aid programs that we started, we had to fund them on borrowed money, did we not? Isn't that a statement of fact?

Mr. HESS. Yes.

Mr. PASSMAN. I want you to know that I appreciate very much that very frank statement. When we work together like this, we can always accomplish much more. Of course we know that we have spent, since the end of World War II and since we started the foreign-aid program, all pieces of it, a net of about $250 billion. When we take the net expenditures plus the interest we paid on what we borrowed to give away, the amount is just about the difference between the $159 billion public debt we owed when I came here and the $455 billion public debt today.

I am not a lecturer. I would starve to death trying to lecture for a living, but I do know something about the foreign-aid program. You are responsible people. We must work together, even though it pinches in places. We have been so anxious to be Santa Claus to all nations of the world until it got so bad in 1968 we recruited some specialists to analyze the foreign exchange credits of all recipients of foreign aid. We found that many of these countries had created substantial surpluses in their foreign exchange account. When this was discovered, we called in the black satchel man, the strong arm man, and said, "Now you go out and see how much of this money you can borrow." Just one example. They arrived in Thailand, where we had a very substantial AID program still going on. We tried to borrow a quarter of a billion dollars from Thailand. They said, "No." They finally agreed to make us a $100 million loan at 6 percent, repayable in 4½ years. This is Thailand, a so-called underdeveloped country, which had a billion dollar credit surplus in the foreign exchange account. We borrowed $100 million. That is due on July 2 of this year. Then we are going to have to borrow it from somewhere else to pay them.

COST OF FOREIGN ASSISTANCE

For the Peace Corps, since its inception, the Congress has provided $1,064,614,000. From here on until the end of time our Government is going to have to raise $60 million every year to pay for the money we borrowed to spend on the Peace Corps. You see it through different eyes, when you consider these statistics. It is not just $1 billion. It is a question from here on to the end of time, as long as you have a public debt, we are going to have to borrow this $60 million every year to pay the interest on the $1 billion we have spent in the Peace Corps. These are some of the things this committee must deal with. We certainly hope in our examination you will take that into account. I don't believe any of you gentlemen would want us to represent you, if we didn't scrutinize all of these requests. I am sorry if I have imparted a wrong image at times, in trying to do a creditable job for the taxpayer. Some-

times people question my philosophy. First I am an American. It causes me no pain to support Mr. Nixon. I think he is a great President. I don't agree with him in every instance. He doesn't embrace all of my philosophy, I don't embrace all of his philosophy, but I have a lot of respect for the man. I am not criticizing the gentleman because he is trying to cut back on expenditures.

But I am a bit disappointed that in foreign aid this year, like all other years, they didn't impound a dime. It is a fantastic figure. When you look at the grand total it is over $18 billion. They have not impounded one dime. We certainly hope that before we finish our hearings we will find out why.

We will say nothing to embarrass you purposely, but we are trying to do a creditable job and to get spending programs under this committee under control, hoping that other committees will do likewise. We hope sooner or later, we will start operating this big and great Government of ours on what we take in rather than what we take in plus what we can borrow.

Finally this year, even after Mr. Nixon impounded over $8 billion, we are still going to have a budget deficit of $27.9 billion. It is rather fantastic, isn't it?

Mr. HOWE. Mr. Chairman, if I may, I would just like to observe that while neither Mr. Hess nor I have appeared before your committee before, we have a very great respect for the tremendously difficult job you have, and will do our level best to respond to the searching inquiries you make of us.

Mr. PASSMAN. I don't want you to just respond. I want you, if you will, to cooperate and help make reductions. I assume you know Dr. Hannah's formula, and I love him for it. He is a great gentleman. He said, "Mr. Chairman, there is an asking price and a taking price." So let's finish the hearings and look at the asking price and we will arrive at the taking price later. We hope you share Dr. Hannah's philosophy, and on that basis, we can proceed and possibly start off good friends and wind up good friends. Mr. Shriver.

REPORT OF HOUSE FOREIGN AFFAIRS COMMITTEE

Mr. SHRIVER. Thank you, Mr. Chairman.

I notice, Mr. Howe, in the statement that the Foreign Affairs Committee recently sent two of its staff members overseas to personally examine volunteer programs. The committee report, entitled "The Peace Corps in the 1970's," contains constructive suggestions for improving the effectiveness of your program. Would you put in the record some of the high points of that report.

[The information follows:]

The staff of the House Foreign Affairs Committee in their report entitled "The Peace Corps in the 1970's," concluded, after visits to Thailand, Korea, the Philippines, and Malaysia in November 1972, that the "Peace Corps has come of age in this decade" (p. 1.). Whereas 10 years ago, host nations were requesting any assistance available, today governments are more sophisticated in their requests and demand much greater control over all foreign aid.

"In all countries we visited, Peace Corps programs are now being integrated with the host government's overall development effort to a much greater degree than heretofore. This has resulted in direct involvement of host government officials in Peace Corps planning and has made such programs more relevant to the government's own developmental needs. It has also produced a higher

level of commitment by key host government officials in the program's overall success." (P. 3.)

For example: "The fisheries vocational education and training program in the Philippines is currently staffed by 37 volunteers who were in effect, handpicked by the Deputy Philippines Fisheries Commissioner."

To meet host country requests, a greater number of volunteers with high technical expertise is being recruited, although "an attempt has been made to establish a better balance between generalist and specialist-type programs, not to abolish generalist programs altogether." (P. 3.)

Thus, "the average age of the volunteers and trainees has shifted from 23.9 in fiscal year 1969 to 27.1 in fiscal year 1972. During the same period the number of volunteers over 50 has risen from 11 in fiscal year 1969 * * * to 178 in fiscal year 1972—or 5 percent of the total. In addition, 188 family units * * * has been placed in the field by the end of 1972." (P. 1.)

To prepare volunteers more adequately, volunteer training is now almost exclusively conducted in-country.

This is an improvement in the program for several reasons. First, in-country training is less costly than training in the United States * * * Second, the training can be made more relevant to the trainees' respective future assignments * * * Most importantly, the volunteers are subjected to direct exposure to the cultural environment in which they will be required to serve and can make a more realistic personal evaluation of whether they are up to the challenge." (P. 6.)

In addition to these comments on Peace Corps programing, the report dispelled a number of current myths about volunteers; for example, youths, alienated from their own society, "doing their own thing" abroad.

"Although our contact with volunteers was limited to the four countries visited, our impression is that the above characterization is entirely misleading, at least as far as current participants in the program are concerned. The volunteers we met were, by and large, practical, mature, and job-oriented individuals, who were at pains to avoid involvement in local or international political controversy. They were also representative of a variety of age groups and economic and social segments of American society. Moreover, as a group, they seemed to recognize and accept the necessity of conforming to local customs and traditions. Hair styles, for instance, were considerably shorter than the average within the United States." (P. 7.)

Another problem addressed of general concern is that of drug usage. The report included the following observations on drug usage in the Peace Corps:

"The drug problem is * * * one which permeates all aspects of our society * * * and inevitably the Peace Corps has had its share of incidents. (Yet) all of the Peace Corps directors with whom we discussed this matter expressed the belief that drug abuse constituted no serious problem. Incidents, they felt, had been isolated in nature * * *.

"The Peace Corps takes a hard line on the use of drugs by volunteers. Any such involvement which comes to the attention of members of the Peace Corps staff results in the immediate termination of the volunteer or volunteers concerned." [P. 8.]

The final recommendation of the report was that "the present or potential effectiveness of the Peace Corps should not be judged in quantitative terms." [P. 5.]

"If the Peace Corps is to survive in the 1970's, it must face the fact that quality is an absolute prerequisite to success and that if highly qualified personnel cannot be supplied in the numbers desired * * *, some retrenchment in the program will become unavoidable.

"The New Directions approach, we feel, has much intrinsic value which is not necessarily reflected in recruitment statistics. Where volunteers have been able to perform adequately (in areas of genuine need), their contribution has been disproportionate to their numerical strength. Where, however, these circumstances have not applied, the program has backfired.

"Although it is not our purpose to recommend a specific level of Peace Corps representation abroad, we do advocate a more careful matching of volunteer qualifications with program requirements. If this results in a smaller organization than was originally contemplated, it does not mean the Peace Corps is any less effective. On the contrary, we believe a more streamlined corps of qualified individuals, which develops a reputation for efficiency and professionalism is more likely to receive both the recognition and the candidates it seeks." [P. 5.]

Mr. SHRIVER. Would you now describe what actions you have taken or are planning to take in response to the report.

Mr. HOWE. Would you like me to put those in the record?

Mr. SHRIVER. Just give us a few things you are doing.

Mr. HOWE. Mr. Chairman, I will respond briefly, and ask Mr. Hess, who is responsible directly for the Peace Corps, to respond in more depth. We have, first of all, attempted to respond by increasing what we call our preinvitational staging. One of the points the committee made was that we need to improve our selection process. We are, therefore, increasing the number of trainees or the number of applicants with whom we will meet in these stagings here in this country, to talk about their subsequent assignments so that they have an opportunity to deselect themselves and we have an opportunity to decide whether they are appropriate to send prior to the time they go.

We are also providing countries with better information on the skills that are available, because our whole approach has been to provide fewer volunteers with higher skills. We are providing applicant profiles to our country directors so that in working with host country officials they can determine exactly what skills are available to them, and will be better able to program those volunteers in the skill areas that we can offer.

We are attempting, through meetings with our staff, to improve the programing, so that whenever somebody does arrive in a particular project, that project will have been worked out very carefully with the host country government, that it will be a high priority of that government, not a high priority of ours, and that the job will be well organized and well defined, so that the volunteer will be able to serve well, when he does arrive.

I know that Mr. Hess has other specific observations to make, and we will submit more for the record, if you so desire.

Mr. SHRIVER. Put into the record further things that are being done to implement the suggestions made in the report.

[The information follows:]

The House Foreign Affairs Committee staff, in its report, "The Peace Corps in the 1970's," was critical of Peace Corps operations in two areas, recruitment and selection.

Regarding recruitment, the report (page 4) indicates that Peace Corps has failed "to fill the gap caused by AID's retrenchment in the field of technical assistance. In this respect, the hopes which were initially raised by the introduction of the new directions program have proved illusory." Additionally, the report called for "a better system of estimating the availability of such skills well in advance of the trainees' scheduled arrival * * *"

Regarding selection procedures, the report stated (page 4) that "preliminary screening procedures have, in a number of instances, been grossly inadequate. * * * as attested to by the high fallout rates noted in a number of specific programs."

Both of these shortcomings are being met in a number of ways. When the new directions approach was first initiated, many host governments simply asked for the most highly skilled individuals in the needed skill area, without assessing whether such skills were actually necessary for the job at hand. Peace Corps now requires that requests for volunteers be more realistically appraised, and projected with greater accuracy by the Peace Corps field staff. Through these measures, the Peace Corps should be able to fill more of the requests, and, at the same time, reduce the attrition rate of dissatisfied volunteers. In the past, too many volunteers with high degrees of specialization have been disappointed with jobs that did not require their level of expertise.

Due to the success of incountry training, which was initially begun on a trial basis in one region, Peace Corps has made the decision to train nearly all of its volunteers in their prospective host countries. This action will not only affect

the general quality of Peace Corps training, but also recruitment, selection, and the matching of applicant skills to host country needs.

Incountry training not only permits the volunteer to be trained in conditions similar to what will be experienced while in volunteer service, but allows host country nationals to be involved in the project planning and administration, training design and administration, and in the actual assessment of the trainee's qualifications and aptitude for service in their country.

The trainee suitability assessment process included in incountry training is coupled with preliminary screening sessions in the United States, called pre-invitational stagings (or Prists).

Followup studies of those volunteers who were screened by the Prist method and those volunteers who were screened through less extensive methods have indicated, in terms of volunteer and host country supervisor satisfaction, that Prists are an improvement in Peace Corps' recruitment and selection procedures. The Prist allows Peace Corps staff to have an additional opportunity for in-depth assessment of the applicant, but more importantly, it gives the applicant a much better opportunity to assess the Peace Corps' mission, the demands of the potential job assignment, the idiosyncrasies of the prospective host country, and, generally, with this additional information, to decide if he still chooses to join the Peace Corps. We are increasing the number of trainees who will be involved in Prists, and, through this action, expect Peace Corps' screening and selection to be significantly improved.

BUDGET REQUEST TO OMB

We all know that many items in the fiscal 1974 Federal budget underwent close examination and scrutiny by the Office of Management and Budget, including, I assume, the Peace Corps. You are presenting a budget request of $77 million. What was your original request to OMB?

Mr. HOWE. Congressman Shriver, our original request was approximately $99 million. That was reduced by $22 million, as we joined with OMB in recognizing the difficult fiscal situation the country faces at this point in time, and strongly supported their decision and the President's decision to reduce our original request by $22 million.

Mr. SHRIVER. I think that is all I will ask at this time.

STATUS OF FUNDS

Mr. PASSMAN. Thank you. Could you give us the amount of the estimated unexpended funds for the Peace Corps on June 30?

Mr. HESS. For this particular year we expect to obligate the total amount authorized.

Mr. PASSMAN. That is not the question. The unexpended balance is what I want.

Mr. HESS. I would like to ask Mr. Markham to respond to that.

Mr. MARKHAM. I will have to furnish that for the record.

Mr. PASSMAN. You don't have any estimates?

Mr. MARKHAM. On the unexpended balance?

Mr. PASSMAN. That is right. We always get that estimate. I want to know what you will have on hand, obligated but unexpended, or we might say undisbursed.

Mr. MARKHAM. About $14 million.

Mr. PASSMAN. What would be the unobligated funds according to your present estimate?

Mr. MARKHAM. On June 30?

Mr. PASSMAN. Yes.

Mr. MARKHAM. We expect to obligate substantially all of our money by June 30.

Mr. PASSMAN. You use the word "substantially." We are going to deal with dimes and nickels. You are bound to have some estimate. What did you have unobligated last year?

Mr. MARKHAM. $63,000 last year. It was very close.

Mr. PASSMAN. Your record shows that over a period of years you usually had a very substantial unobligated balance, in some years going as high as $20 million, I believe. How were you able to work it down now to where it is almost right on the penny?

Mr. HESS. Last year, Mr. Chairman, the Congress appropriated $72 million, and there was another $2.6 million allocated.

Mr. PASSMAN. Allocated from where?

Mr. HESS. From AID. The $72 million was not adequate to carry out the program for which we had made commitments. As a result, we were in a very, very tight budget situation. For this particular fiscal year I expect again we are going to be operating with a very tight budget. So far as we can now project, all of our funds will be obligated by the end of the year.

Mr. PASSMAN. You know we have become so accustomed to carelessly handling these tens of millions of dollars as though you can go out and pick them off a tree somewhere. As far as I am concerned, even if all of your corpsmen were members of the clergy, out trying to convert people to do good rather than bad, I would have to look a long time at $77 million, because $77 million is still a lot of money, isn't it?

Mr. HESS. Yes, sir.

Mr. PASSMAN. It is especially a lot of money for something that is brand new in government, and there is a very serious question about whether there has actually been any real accomplishment. At this time, I want to yield to Dr. Long.

IMPOUNDMENTS OF APPROPRIATED FUNDS

Mr. LONG. We have had a great many impoundments this year in our domestic programs; as a matter of fact, one-third of all of the controllable budget of the United States has been impounded in fiscal 1973. The President just vetoed the vocational rehabilitation legislation, and the Senate failed to overthrow that veto. Has any money been impounded for the Peace Corps?

Mr. HESS. No, sir; no money has been impounded from the Peace Corps this year.

Mr. LONG. Has the Peace Corps indicated that any money could have been impounded?

Mr. HESS. No, we did not indicate that.

Mr. LONG. Can you tell us why our commitment to the Peace Corps, valuable as it may be, is of a higher order of importance to humanity than the needs of crippled people and mentally retarded people, who desperately need help here in this country?

Mr. HESS. There are obviously many great demands being made on the Federal Government, both domestically as well as worldwide. I think the Executive, the administration, the President, has a very difficult problem in allocating scarce resources.

Mr. LONG. Why couldn't the Peace Corps have taken its share of the reductions, in view of the budget stringency?

Mr. HESS. I think in trying to answer why the President did not, it

is because I feel foreign aid needs to be continued at some level. Part of the foreign aid program is the Peace Corps. The Peace Corps, I think, is providing very valuable assistance overseas in meeting foreign aid needs at a very inexpensive price.

Mr. LONG. Wouldn't you think vocational rehabilitation and conservation of our forests is terribly important? The President has impounded money to do forest planting on our national lands which are running down very badly. The President has impounded money for sewage treatment while we know our streams are being very badly polluted. We had a program to convert coal and lumber into oil. As a matter of fact, that program is very close to paying off, and the President impounded money on that or cut the budget back for fiscal 1974. I just want to know what the Peace Corps is doing that is of a higher order of priority over our domestic programs, so that it couldn't have taken at least its share of the cuts.

Mr. HESS. Mr. Congressman, we do develop our budget requests on the basis of needs that are represented to us from overseas. They are far in excess of what I think we could afford. What we thought we should afford for this country was tendered to the Office of Management and Budget, and it totaled $99 million. However——

Mr. LONG. Don't you suppose that that is going on in every department of this Government?

Mr. HESS. That is possible; yes.

Mr. LONG. They have very large requirements that are cut down.

Mr. HESS. We did receive an authorization to submit to the Congress a request for $77 million, which is a substantial reduction. That is $4 million less than this year's continuing resolution level. Moreover, we were asked, and we will have to absorb, an estimated 7 percent rise in the cost of living. Now, with the devaluation, which we had not anticipated, we are also going to have to absorb that. So, in effect, we must absorb a $9 million reduction from this year's budget level.

Mr. PASSMAN. Would you yield?

Mr. LONG. I will be glad to.

Mr. PASSMAN. The devaluation is brought about simply by our country's mismanagement of its fiscal affairs; isn't that correct?

Mr. HESS. I understand that is part of it; yes, sir.

Mr. PASSMAN. That is all of it, because had we managed our fiscal affairs as some of our former recipients in Europe, our dollars would have been in demand rather than people running from them.

Let me say this. Of the net $250 billion that we have given away through the foreign aid program, there has never been $1 of any funds of any foreign program ever impounded under this administration or any prior administration. They call it a sacred cow. There has never been a dime impounded. Do you realize in a great many instances worthy projects with high benefit/cost ratios are completely wiped out of the budget. They are not even permitted to put them in the budget. This year in your public works programs, rivers, harbors and revetments where people have had a lot of their property destroyed and people are drowned, they only permitted four new starts in the entire United States.

Mr. LONG. I didn't mean to imply that I didn't think the Peace Corps was a worthwhile program. I have seen very good things go on over the world. But if we gave money to every worthwhile pro-

gram in this country, including help to the elderly, the sick, the blind, to housing, education of all kinds, day care, guaranteed incomes, hospitalization, we could double the entire expenditure of the Federal Government; so all these have to be cut back. I am just wondering why the Peace Corps, as valuable as the program is, can't take its share of the reductions. That goes, of course, for our other foreign aid for which, as the Chairman has indicated, funds have not been impounded.

PERCENTAGE OF BUDGET FOR STAFF

What percentage of the total budget goes to staff costs as opposed to volunteer costs?

Mr. HESS. About 20 percent.

Mr. LONG. Of your entire proposed $77 million, 20 percent will be for staff?

Mr. HESS. Yes, sir, approximately 20 percent for salaries and benefits.

Mr. LONG. In other words, a little over $15 million will go for staff.

Mr. HESS. Yes.

EVALUATION OF PROGRAMS

Mr. LONG. I understand you are about to institute an evaluation procedure with mainly volunteer input. Could you describe this system, and will it provide the information you need to evaluate the program?

Mr. HESS. Yes, sir. The evaluation system that we are about to institute is one which would provide each individual volunteer an opportunity to assess his attempt at meeting——

REDUCTION FROM OMB REQUEST

Mr. ROUSH. I would like to follow up on the question Mr. Shriver asked concerning the reduction you received from the Office of Management and Budget, from $99 million to $77 million. What programs would be cut, and can you supply for the record—perhaps you could give us—the basic or the big cuts now, but supply for the record the proposed reductions in your plans for the Peace Corps for fiscal year 1974.

Mr. HESS. Yes, sir. The cut is primarily in the numbers of trainees who would enter the programs, and in the volunteers who would be in the field. In addition, we had proposed to the OMB an increase in the readjustment allowance for volunteers amounting to about $5 million. The readjustment allowance has not been increased since the beginning of the Peace Corps. Because of inflation it has shrunk. Those are the major items that would have been provided for with our original request.

Mr. ROUSH. Does it mean terminating programs in any country?

Mr. HESS. Yes; it does in terms of projects.

Mr. ROUSH. Other than those plans?

Mr. HESS. In terms of projects that have been requested we will not be able to meet all of those projects; yes, sir. I could provide that now for the record.

[The information follows:]

The reduction to $77 million from the $99 million requested of OMB necessitated reductions in three areas:

(1) Instead of filling the 7,000 host country requests expected, we will only be able to fill 5,760.

(2) The OMB request included money for raising the readjustment allowance from $75 to $125 per month.

(3) All cost factors—training, volunteer costs, and program support—have been reduced substantially.

These reductions are consistent with the President's desires to reduce Federal spending in all programs—foreign and domestic.

Mr. ROUSH. That is all I have at the present time.

Mr. PASSMAN. Thank you. Mr. Conte.

PEACE CORPS SERVICE A "JUNKET"?

Mr. CONTE. Mr. Howe, has the President's reference to a tour of duty in the Peace Corps as a "junket" caused you any harm?

Mr. HOWE. We have approximately 11 letters on that subject which suggests it has not caused us any harm. Our recruiting figures do not indicate it has been deleterious. I do regret very much that the clarification which the President made through Mr. Ziegler did not receive the same wide distribution that the President's original comments did and I would be happy to read that or perhaps provide that clarification for the record.

Mr. CONTE. Is it very long?

Mr. HOWE. About two paragraphs, not terribly long.

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

[The information follows:]

EXCERPTS FROM MR. ZIEGLER'S BRIEFING CONCERNING PEACE CORPS

Mr. ZIEGLER. "The reference that the President made the other day did not go specifically to the Peace Corps. Those of you who may have been in attendance at the press conference know that in the context of what he was saying he was obviously making a comparison of a situation where an individual, as he said, should pay a penalty if he was a deserter, and the reference he made to the Peace Corps was that the paying of that penalty should not be spending time in the Peace Corps. He was not in any way at all being derogatory toward the Peace Corps. He was drawing the comparison there.

"Many people, the President feels, as he has made clear before, have devoted very selfless and dedicated service to the objectives of the Peace Corps, and the President appreciates those efforts and the efforts of the Peace Corps in meeting the objectives which the Peace Corps works toward.

"He was not addressing himself to the work of the Peace Corps. He was saying it was his view that someone who violated the law should pay a penalty, and he made it clear that the paying of that penalty, in his view and under his policy, would not be the serving out of a period of time in the Peace Corps."

Mr. HOWE. It does indicate that the President was specifically differentiating that the opportunity for Peace Corps Service should not be construed as a penalty, which he felt was consistent with the fact that those who had chosen to leave the country rather than serve had violated the law. He did indicate his recognition of the dedicated service many Peace Corps volunteers had made. We will provide the detailed comments for the record.

Mr. CONTE. I was quite upset. I know there is a lot of criticism, and there probably will be many more regarding the Peace Corps. Having served on this committee for 12 years, and having been one of the initial backers of the Peace Corps, I have gone out to the boondocks

of Africa and Southeast Asia and have seen the Peace Corps in action. I have always said that it certainly isn't a boondoggle or a junket. I don't think there are many people in this country who would be willing to go out there in a swamp-infested area, with mosquitos, none of the luxuries of life, and live alone as they do.

Of course you have had some bad cases, and you are going to continue to have bad cases, as you do in all agencies of the Federal, State, and local governments. You are dealing with human frailties and you are bound to have some problems.

PEACE CORPS NOT FILLING ALL REQUESTS FOR VOLUNTEERS

Is it true that the Peace Corps is not filling all the requests which host countries are making for volunteers?

Mr. HESS. Mr. Congressman, that is correct. We have requests for approximately 7,000 volunteers.

Mr. CONTE. Why aren't you filling them?

Mr. HESS. We will not be able to fill them with the $77 million budget that we are requesting.

Mr. CONTE. Will you give us a breakdown of the 7,000 requests?

Mr. HESS. Yes, sir.

[The information follows:]

SKILL BREAKDOWN OF FISCAL YEAR 1974 REQUESTS

	Total	Africa	Latin America	NANEAP
Agriculture total	1,181	260	527	394
Agriculture degree	525	111	261	153
Agriculture background	337	83	129	125
Agriculture associate in arts (2 yr degree or minor)	64	23	33	8
Forestry degree background	162	41	80	41
Fish degree background	93	2	24	67
Skilled trades total	354	125	77	152
Industrial arts/vocational education	134	13	23	98
Construction, general skills	28	7	15	6
Plumbers and pipefitters	18	2	6	10
Heavy equipment	18	18	----	----
Sheet metal/welders/miscellaneous	20	14	5	1
Mechanic, gas and diesel	64	33	11	20
Machinist	11	8	2	1
Draftsman/printing crafts	21	8	7	6
Electricians, construction/machine	27	17	4	6
Electronics/communication/miscellaneous	8	4	1	3
Refrigeration and air-conditioning	5	1	3	1
Professional services total	1,372	237	721	414
Architect, graduate/experience	51	2	38	11
Architect, other	35	10	5	20
City/regional planning, graduate	40	5	27	8
City/regional planning, other	25	----	10	15
Lawyers	14	3	4	7
Medical profession	48	19	17	12
Nurse, degree	146	33	78	35
Nurse, other	111	5	71	35
Therapist	25	1	16	8
Medical technician	41	11	9	21
Other technicians	11	4	7	----
Health related fields	48	5	25	18
Master of business administration	36	5	22	9
Business degree, graduate	22	1	6	15
Master of business administration	7	----	7	----
Business degree, bachelor of business administration	127	3	89	35
Accounting, degree	45	----	42	3
Other business degree	31	15	14	2
Economics	43	2	25	16
Home economics	129	28	48	53

See footnotes at end of table.

SKILL BREAKDOWN OF FISCAL YEAR 1974 REQUESTS—Continued

	Total	Africa	Latin America	NANEAP
Social work	30	5	17	8
Computer science	10	1	6	3
Clerical/public service	15	----	12	3
Civil engineer	150	32	69	49
Do	17	2	11	4
Other engineer	56	27	23	6
Miscellaneous, professional	35	13	14	8
Geology	24	5	9	10
Education total	1,647	585	429	633
Education graduate/experience	182	25	113	44
Education graduate degree	11	----	11	----
Education graduate/special	12	----	8	4
Primary education/experience	153	45	26	82
Primary education degree	87	----	47	40
Secondary education/experience	398	278	15	105
Secondary education degree	15	13	2	----
Secondary education degree specialty	14	----	2	12
Mathematics, major/minor	244	79	15	150
Biological science graduate	50	5	27	18
Biological science degree	87	20	1	66
Physical science chemistry/physics/graduate degree	86	37	28	21
Physical science chemistry/physics degree	31	11	4	16
General science degree/minor	90	53	----	37
Business education degree	37	15	8	14
PE/recreation degree	150	4	122	24
Generalist total	2,046	752	540	754
English graduate/degree	574	252	15	307
Graduate generalist	162	36	11	115
Bachelor of Arts, general male	839	299	321	219
Bachelor of Arts, general female	331	57	167	107
Associate in arts, general/bachelor of arts, graduate equivalent	69	62	6	1
Sub bachelor of arts, general—2 yr college	41	41	----	----
Handicraft	9	3	6	----
Rare skills	21	2	14	5
Subtotal	6,600	1,959	2,294	2,347
Individual placements [1]	400	----	----	----
Grand total	7,000	----	----	----

[1] Individual placement requests are generally for highly skilled individually placed volunteers for work in high impact programs. Volunteers who fill individual placement requests usually have specialized training and considerable work experience.

CRITERIA FOR APPROVING PROJECTS

Mr. CONTE. Which criteria do you use to determine which projects should be approved and which ones should not be approved?

Mr. HESS. We do it primarily on the basis of the quality of the program in a country. We want to be assured that each program is in accord with the priority needs of that particular country. We want to be assured that each program has a training component in it so that when a volunteer leaves, he will have passed on his skills to a host country individual.

We want to be assured that we are training people in human resources development. We want to complement other assistance programs in that country. Of course, we want to be sure that the program is one that is really helping the country. Rather than sending volunteers to do their thing, we want volunteers to be doing the thing that the country has requested of the volunteer.

SUCCESS OF "NEW DIRECTIONS"

Mr. CONTE. On page 6 of your prepared statement you state that design, development, and implementation of your projects have improved markedly over the past. Is this part of what the Peace Corps calls "New Directions"? How successful has it been in terms of what you are trying to do?

Mr. HESS. That is a part of the new directions. We have specifically sought to improve the quality of the program. We are asking host countries to describe more specifically what their needs are that they want the volunteers to fill.

Second, we want specific job descriptions available before we begin our recruitment.

Third, we are asking that there be a much better selection of volunteers against those jobs. Today we are getting persons with more experience, more skill, and somewhat older in the Peace Corps. We are also improving our training program, to make it more effective, so that volunteers are better prepared to serve the needs of that country.

We have also asked for increased host country contributions, so that they are sharing with the U.S. Government in this particular venture, so that it is not all borne by us.

IMPROVEMENT OF VOLUNTEER SELECTION

Mr. CONTE. Will you please describe the preinvitational staging you are using to improve your selection criteria and placement procedures?

Mr. HESS. We are trying to improve our selection procedures. Through the preinvitational staging we take a proposed applicant for the Peace Corps, invite him to a given place, where a panel of staff members will interview him to assure that, first of all, he has the skills and attitude that are going to be needed to do a particular job. We want to assure that he is a suitable, representative American to serve overseas. We want to be sure he can actually serve under the conditions of hardship which he is going to be asked to endure overseas.

EMPHASIS ON IN-COUNTRY TRAINING

Mr. CONTE. You state you are continuing your emphasis on in-country training. Is this an indication of a greater commitment on the part of the host country to the Peace Corps program?

Mr. HESS. Yes; I think it is. We are no longer training volunteers here in the United States because we have found that we cannot replicate a particular country's environment here in the United States. We feel that when he is trained in country, the volunteer is more effectively prepared to handle his job, the language, and the culture.

IMPACT OF FISCAL YEAR 1972 APPROPRIATION

Mr. CONTE. You state you plan to increase the number of trainees in fiscal 1974. Yet you also state that the end strength of the Peace Corps will be less at the end of 1974 than it will be at the end of 1973. Why is this so?

Mr. HESS. That came about, Mr. Congressman, as a result of the 1972 appropriation. The funds available were insufficient to provide the

number of trainees that we had anticipated. In that year we had only 3,600 trainees. We had expected to add about 5,500 trainees. Since they serve over a 2-year period, we actually had fewer volunteers in fiscal year 1973 and will feel the full effect in 1974.

Mr. CONTE. You mention there is going to be a 7-percent inflation in the host country, is that right?

Mr. HESS. Yes.

Mr. CONTE. What indication do you have that the host countries will be willing to increase their contributions to approximately offset the inflationary increases?

Mr. HESS. We are constantly attempting to have host countries also provide us with more of the support that is needed for the Peace Corps, including cash and inkind funding. We have entered into negotiations with each country to seek out additional funds. Our target this year is a 5- to 7-percent increase over what they provided in prior years.

"BARE BONES" BUDGET

Mr. CONTE. You are asking for $77 million. That is a reduction from $81 million, a reduction of $4 million.

Mr. HESS. Yes.

Mr. CONTE. In the past the Peace Corps came in here and asked for a little bit more than you needed so that you had a bargaining figure. Is there any bargaining figure here? Is this your bare bones figure?

Mr. HESS. It absolutely is, and I would reemphasize that the reduction we are making is really more than $4 million. We are absorbing the 7-percent cost for inflation. We are also going to have to absorb devaluation. In fact, we are absorbing about a $9 million reduction.

I want you to know that I am very, very concerned about the cost of the Peace Corps. I am going to do all in my power to keep trimming it while still attempting to meet the needs that we have overseas.

Mr. LONG. Mr. Chairman, I hadn't finished my questioning.

Mr. PASSMAN. Had you consumed 5 minutes? We are trying to finish under the 5-minute rule first.

Mr. LONG. I hadn't thought so.

Mr. PASSMAN. Continue then. We are going to have to operate in regular order here according to the rules or we will never get through with the hearings this year.

METHOD OF EVALUATING PROGRAMS

Mr. LONG. Do you have a systematic method of evaluating your programs; a method that shows evidence of benefits to host countries? I believe that was the question I was asking when the bell rang.

Mr. HESS. Yes, sir. We are in the process of installing a number of evaluation programs. Some evaluation programs will involve the volunteer himself. We are asking each volunteer to evaluate his effectiveness on the job, and what he is accomplishing on that job. He will periodically take a look at what he was asked to do and what he has actually accomplished with his host country supervisors.

Mr. LONG. Can you make this information available to Congress, the results?

Mr. HESS. The results, no. We are just embarking on this particular

evaluation program, but I will be happy to provide a description to you.

Mr. LONG. We would be very interested in having that.

Mr. HESS. We do have a survey of the evaluation activities the volunteers are involved in and I will be happy to provide that.

[The information follows:]

PROGRAM EVALUATION

Peace Corps is currently developing an internal program evaluation system, which might better be termed a field program control system. Its aim is to provide an overall system for objectively evaluating and monitoring Peace Corps programs. It provides Peace Corps with the capability of assessing programs on a regular basis in order to improve overall quality.

The approach, still in the formulative stages, is being developed jointly by the overseas and Washington staff. Because of the important nature and comprehensive scope of such a system, it will be a number of months before it is finalized. The basic components of the internal program evaluation system will include:

(1) Volunteer-onsite job reviews in order to more precisely (*a*) plan what the volunteer will do in relationship to project objectives and host country needs, and how best the job can be executed, and (*b*) assess and report on volunteer activities and accomplishments.

(2) Project reviews noting project status-related issues, alternative actions and programing requirements.

(3) Host country evaluations involve host country review of Peace Corps programs with the objective of obtaining an independent assessment in order to identify and resolve any problems or issues that affect overseas operations.

(4) Series of volunteer group reviews at various points in time of their service in order to assess such basic areas as general attitudes, placement and training, project support, and programing, so that changes, adjustments, or refinements can be made on the project while it is still underway or on its replacement should there be one.

(5) Program staff reviews, both overseas and in Washington, will assess program progress, identifying and taking replanning actions.

RESULTS OF EVALUATIONS

Mr. LONG. Don't the results of the evaluations show that there are some countries where the programs are less valuable, let's say, than in others; some in which you are marginal; and some in which we can get along without the programs in that particular country completely?

Mr. HESS. Yes. There have been those cases. When there are, we discontinue the program.

Mr. LONG. What programs have you discontinued, in what countries?

Mr. HESS. The largest group of programs which we discontinued is community development, rural development, particularly in Latin America. We discontinued programs where——

Mr. LONG. Rural development?

Mr. HESS. I'm sorry, community development. They were really organizational, community action type activities, where the governments did not provide adequate support to the volunteers. They have been discontinued.

Mr. LONG. I have seen rabbit cooperatives in Guatemala. I have seen homebuilding cooperatives in Panama and in Chile, Santo Domingo and so on. Is that what you mean?

Mr. HESS. No, sir. I do not refer to those. Those are in our cooperative business development activity. The community action programs

are largely those in which local people were organized to be advocates for one particular issue or another.

Mr. CONTE. Do you mean they are getting involved in politics?

Mr. HESS. They might have gotten into politics, but we have discontinued that altogether. That is not a role I feel Peace Corps volunteers should get involved in.

Mr. LONG. I am inclined to agree. It indicates interference. I have some other questions.

Mr. PASSMAN. I hope you will stay and ask them when we come around again. We want to respect the 5-minute rule in fairness to all members. Each member can then take a full day if he wants to after the 5-minute period is completed. I didn't make the rules but I think we should abide by them.

Mr. LONG. I have no objection, Mr. Chairman, you take 5 minutes between each one.

Mr. PASSMAN. I happen to be chairman of the committee.

Mr. LONG. It doesn't save a great deal of time.

Mr. PASSMAN. It is my responsibility.

Mr. LONG. I enjoy your remarks.

Mr. PASSMAN. We will be back to you at the proper time.

Before we get too far away from the question of a bare-bones budget, it is my understanding that the same Director of the Office of Management and Budget reviews all of the budget requests the same as he reviews your budget request, does he not?

Mr. HESS. That is right, sir.

Mr. PASSMAN. Wouldn't you assume that all the bureaucrats representing every agency of Government coming before these committees would say this is a bare bones budget?

Mr. HESS. I would assume they would.

Mr. PASSMAN. I am very thankful for that statement. Of course since you are going to say bare bones, we know none of these things are bare bones budgets just as you admitted in the beginning. There is an asking price and a taking price.

LOW UNOBLIGATED BALANCE FOR PEACE CORPS

Isn't it true that you have a very low unobligated balance because you transferred funds out of the Peace Corps over to the operating expenses of the domestic program of ACTION in 1973?

Mr. HESS. We have to share in some of those expenses, yes, sir.

Mr. PASSMAN. You did transfer funds out of the Peace Corps over to the domestic programs of ACTION. You did that in 1973?

Mr. HESS. Yes.

Mr. PASSMAN. No wonder you don't have any unobligated balance.

Mr. SHRIVER. Will you yield there? How much was it?

Mr. HESS. A $269,000 transfer.

Mr. PASSMAN. This is one item that we see on the surface.

Mr. HOWE. That is a proposal, Congressman, that the Office of Management and Budget has submitted as part of their salary supplemental request authorizing in accordance with general language the transfer from one portion of any agency budget to another rather than requesting a supplemental for Peace Corps funds to be transferred to domestic appropriations.

Mr. PASSMAN. Mr. Roybal.

Mr. ROYBAL. Mr. Howe, in your testimony you make reference to the fact that a committee of the Committee on Foreign Affairs visited various sites throughout Asia, and that they made a very favorable report with regard to Peace Corps volunteers.

Mr. HESS. That is correct.

LIVING STYLE OF PEACE CORPS STAFF

Mr. ROYBAL. I served on that committee for 6 years, and I don't remember anyone on that committee ever saying an unkind word about volunteers. I think we all hold the Peace Corps volunteers in high esteem. Most of the criticism was not the Peace Corps volunteer, but the Peace Corps professional who, in most countries that we visited while I was a member of that committee, were living in high style. This was the criticism that I heard many, many times on that committee. Has anything been done about correcting some of those conditions?

Mr. HESS. I don't know about those to which you refer in the past, but I want to assure you it is my policy that Peace Corps staff members, wherever they serve, live a modest style of life, and I am going to enforce that.

Mr. ROYBAL. Is this a new change then in the Peace Corps?

Mr. HESS. No, sir. It has always been our principle. Whether or not it was enforced in the past, I do not know.

Mr. ROYBAL. I can assure you it was not enforced. That was one of the criticisms that was made by the committee members, and I hope that now it is in force, because if it is not, I will no longer support the Peace Corps. I have supported the Peace Corps and still do to this moment only because of the Peace Corps volunteer. If you didn't have the Peace Corps volunteer you would have no Peace Corps, in my opinion.

Mr. HESS. I agree with you.

Mr. ROYBAL. As long as you agree you also then state that you will see to it that the original intent of all Peace Corps employees is definitely adhered to.

Mr. HESS. Yes, sir.

Mr. HOWE. Congressman, if I might just add, I think both Mr. Hess and I appreciate those comments, because we feel as strongly as you do, and I think we would propose to send those comments to all of our staff members overseas to impress upon them our commitment to the statement which you have just made.

Mr. ROYBAL. I thank you very much. I made a similar statement before, and apparently it never got to the source, because I went back again a third year to the same country that we were critical of, and a different staff member was living in the same mansion with the same servants. Don't think it was only one servant. It was two servants and a chauffeur. I don't think that was the purpose of the Peace Corps at all, but I am glad to know that there is some attempt now to correct it, because without that correction you lose the support of a person like myself, as an example, who believes that you are doing a good job.

There is complete disagreement perhaps in this committee, but I

have been out to see for myself what the Peace Corps has done, and because I have seen with my own eyes and have spoken to these people, I support the Peace Corps in its service concept, but do not support the other phase of it.

ARGUMENT AGAINST MERGER OF PEACE CORPS AND AID

I have just a few more minutes. Many people have been commenting about the possibility of merging the Peace Corps and AID together since they are providing technical assistance. It is my feeling that, if this were done, you wouldn't be able to get people to serve as volunteers, since in other programs people on a professional level are being paid high salaries. Am I correct in that assumption that you would not be able to get volunteers if there was a merger with AID?

Mr. HESS. I strongly share that opinion. First of all, I think we and AID have two different missions to perform. Second, I agree that it would be very difficult to find people who would be willing to volunteer for a subsistence allowance and work side by side in the same organization with those who are earning substantial salaries. Third, I think that there would have to be consideration of the way we expect volunteers to perform overseas and of the modest style of living we expect of them. I don't see that to be consistent in the two agencies. I am not criticizing AID. They have a separate and distinct role to play.

We do serve "out in the bush," usually under hardship conditions. All of our volunteers are expected to learn the language of the country. That is stated as a requirement in our legislation. I am very doubtful that we could recruit volunteers if we were a part of AID.

COSTS OF PEACE CORPS VERSUS OTHER TYPES OF AID

Mr. ROYBAL. Can you tell me how the Peace Corps program costs compare with other programs which offer technical aid; that is, any program that may serve with any international organization?

Mr. HESS. Yes. It is my understanding that the highly skilled technical assistance which is provided by AID, as an example, costs maybe four or five times that required to support a Peace Corps volunteer.

With regard to other international voluntary groups, our costs are in line with those of other countries. It is difficult to discern all of the costs but I did take a recent look. Some of the other volunteer program costs are higher than the Peace Corps and some are lower. But we are all within a very narrow range.

Mr. ROYBAL. Is there an overlapping between the Peace Corps program and other U.S. foreign assistance programs?

Mr. HESS. I do not think so. I think they are complementary rather than overlapping. To assure this in part, we are coordinating the development and actual operation of programs at the local level; that is, in the countries where we serve. All of our program development and our specific projects are coordinated with the embassy in that country. Then back in Washington coordination again takes place with the Department of State on every project.

Mr. ROYBAL. My 5 minutes I suppose are already up so I am just going to make this very quick observation. For your information I am

going to be asking questions later on with regard to your employment practices, particularly with the discrimination that may or may not exist with regard to the Spanish-surnamed employee.

Mr. PASSMAN. Why don't you take an extra minute or two? I know you want to get statistics on that.

Mr. ROYBAL. If I have unanimous consent.

Mr. PASSMAN. Why don't you proceed with your question?

MINORITY REPRESENTATION ON PEACE CORPS STAFF

Mr. ROYBAL. Mr. Howe, records for July 1971 show that 2.7 percent of the employees were Spanish speaking at the time the Peace Corps merger took place with ACTION, but now you seem to have dropped to 2.

I recall testimony before this committee to the effect that there was some kind of a recruiting program in Spanish-speaking communities throughout the United States, particularly at universities. Has that program completely failed?

Mr. HESS. I am very much concerned about our need to have all Americans participate in the Peace Corps, as volunteers and staff. I find that we are having particular difficulty in recruiting Spanish-speaking Americans. We do have a separate office within ACTION that is assisting us in recruiting minorities for the Peace Corps. I am not happy with our record either. We are making continued attempts to improve that record, especially with Spanish-speaking communities.

Mr. ROYBAL. I am sorry to hear that you haven't had much success. Your records again show that in your overseas staff you have made no improvement, and there is no improvement in your Washington staff between 1972 and 1973. You remain at the same level. Surely there must be someone in the United States who would like to come to Washington to participate in your activities?

Mr. HESS. I was very much concerned about this when I came into office, and we have made improvements since July of last year to now, in terms of minorities in general at all levels. With regard to the Spanish-speaking community, however, I do not think that we have made a sufficient improvement to be satisfied with that advance we have made.

Mr. ROYBAL. My figures show you haven't made any improvement.

Mr. HESS. In the Spanish-speaking?

Mr. ROYBAL. In the Spanish-speaking employment level. Your staff overseas as of November 1972, for example, was 4 out of 222, and your Washington staff has 172 people and 3 Spanish speaking. That is the same figure that I had 2 years ago, so I don't see any improvement in that level. What I am trying to do is not to be critical of the fact that you have not been able to bring this up to what I believe to be parity, but it seems to me that not enough effort has been applied.

Mr. HESS. I share with you the concern that we must make a stronger effort in this regard. We have asked our staff placement office to seek out with special effort Spanish-speaking Americans.

EMPLOYMENT PRACTICES IN PEACE CORPS

Mr. ROYBAL. One of the criticisms that I get from youngsters at the University of Los Angeles or one of the colleges, because there are

several universities around Los Angeles, is that the professional jobs in the Peace Corps are just traded between yourselves, that you may have a Peace Corps Director in one country, so you put him somewhere else, and the whole thing just rotates around so that they put in their full time into the Peace Corps with no opportunities being given to anybody else. Is there any validity to that charge?

Mr. HESS. No, sir, I would think not. First of all we do have a 5-year rule that is part of our legislation, and which we are enforcing strictly. A staff member can only serve 5 years and then he is no longer in the Peace Corps.

We are also attempting to bring in a number of former volunteers. More than one third of our staff members have served as volunteers overseas. I am trying to get quality staff applicants from a cross section of America.

Mr. ROYBAL. Then you do agree that while there has been no improvement, that you as the Director of the Peace Corps will lend your best effort toward that end.

Mr. HESS. I certainly shall.

Mr. PASSMAN. Thank you. Mr. Miller.

VOLUNTEERS FOR SOUTH VIETNAM

Mr. MILLER. I have a couple of questions.

Would volunteers be sent to South Vietnam if they were requested?

Mr. HESS. To date none has been requested, and we would have to consider that request very carefully. If such a request were made we would see whether they involved viable programs, whether or not the safety of the volunteer could be assured and whether conditions were such that the programs could be carried out. I am very much concerned, though, that we would be constrained by funds. In this particular budget, fiscal year 1974, we do not have funds programed for volunteers to go to Vietnam.

PEACE CORPS ACTIVITIES IN CHILE

Mr. MILLER. Could you tell us something about the Peace Corps activities in Chile under the present government?

Mr. HESS. Yes. We have about 35 volunteers who are serving in Chile. They have not been asked to leave, even though some other organizations were asked to leave. The group serving there now is a highly professional group of volunteers. They are working in many fields of research. They are working in areas where their skills are needed for training at all levels. It is a group that has been highly complimented for their activities to date.

Mr. MILLER. By the government?

Mr. HESS. By the government, yes. I might just add that, recently, as a result of the efforts of one volunteer, the Chilean Government flew the volunteer's mother to Chile where they wanted to honor her for her son's assistance to Chile. They feel very deeply about our assistance.

Mr. MILLER. Have your funds every been impounded?

Mr. HESS. No, sir; they have not during this year.

EFFECT OF DEVALUATION OF DOLLAR

Mr. MILLER. What effect has the devaluation of the dollar had on your program?

Mr. HESS. We don't have a full appraisal at this time, but I expect that it is probably going to increase our requirements by $1.5 million to $2 million in fiscal year 1974. That amount we are probably going to have to absorb within the $77 million which we had not planned on at the time of the budget submission.

Mr. MILLER. So that amount is not in the present 1974 budget?

Mr. HESS. It is not.

EFFECT OF FISCAL YEAR 1972 APPROPRIATION

Mr. MILLER. You have a cut from 1971 funds of $90 million or $91 million, and it went down to $72 million in 1972.

Mr. HESS. Yes, sir.

Mr. MILLER. How did this affect the total operations of your program?

Mr. HESS. It had a rather profound effect. We were not able to bring on about 1,300 trainees whom we had planned to bring on. That meant 1,300 commitments in schools, in health centers, with rural extension service organizations, and in other fields in a large number of countries throughout the world. At that time we had to dismiss over 100 employees. We had to ask volunteers not to return home because it would have cost more to return them home after their 2 years were up than to keep them there. We did not fund the commitment we had to the United Nations volunteer program and we deferred many of our procurements.

Mr. PASSMAN. Would the gentleman yield there for a moment?

Mr. MILLER. Yes.

Mr. PASSMAN. The figure that was provided for fiscal 1973 was a figure agreed upon by the head of the Peace Corps.

VOLUNTEERS IN INDIA

Mr. MILLER. The on-board strength now as far as trainees and volunteers in India was 264, as I understand it, in 1972, but it has dropped down quite a bit for 1974. Can you explain this?

Mr. HESS. Yes. The Government of India did not ask for any additional volunteers during the last calendar year. Today I think we have about 70 volunteers in India. It is our understanding that the Government of India is now going to maintain a ceiling of approximately 50 volunteers per year.

Mr. MILLER. You have, as I understand it, less women in the Corps now. Is that correct?

Mr. HESS. Mr. Congressman, it has fluctuated a little bit from about 27 to 33 percent. I think at the present time about one-third of our volunteers are women.

Mr. MILLER. Thank you.

Mr. PASSMAN. Thank you, Mr. Miller.

COST OF TRANSPORTING VOLUNTEERS HOME

What does it cost per volunteer to bring them home?

Mr. HESS. The cost of transportation?

Mr. PASSMAN. Yes.

Mr. HESS. It will vary.

Mr. PASSMAN. Average.

Mr. HESS. The average cost I think is about $620.

Mr. PASSMAN. Then you could have brought many of them home out of the unobligated balance in fiscal 1972, could you not?

Mr. HESS. The unobligated balance was $63,000.

Mr. PASSMAN. But at $620 that would have been space for over 100 Peace Corpsmen you could have brought home.

Mr. HESS. At that particular point in time—we are talking February–March—it was very difficult to project with that great precision.

Mr. PASSMAN. I know it gives you a good argument, you understand, that you couldn't do it because you didn't have the money. You certainly knew maybe a few weeks in advance you would have this money. You could have alerted people that you were going to bring a certain number of them home. I represent a rather broad piece of real estate down in Louisiana, about one-third of the State, 17,000 square miles. We have old people, young people, Peace Corpsmen, black people, white people. My people are no different than any other type of people. I am critical of the Peace Corps because of its cost, its $1 billion cost, and it is going to cost us $60 million a year right on to the end of time. It is financed on borrowed money as we had agreed earlier. Many Peace Corpsmen are in my district. You know that, don't you?

Mr. HESS. Yes, sir.

APPEAL OF PEACE CORPS NAME

Mr. PASSMAN. I am not sensitive about this name.

The name is what keeps the Peace Corps alive. So many people say if you changed the name there would be no Peace Corps. Of course there is a lot of appeal here, and sweet names will attract a lot of people. We know that.

I have still contended that inasmuch as Peace Corpsmen go abroad they do not have to take the same allegiance to their government as other foreign service personnel. They are independent agents, and I have checked too in these countries. I have always contended with a little persuasion I might support some parts of this outfit, if you would bring the corpsmen in and say, "We have amended the legislation where you take the same allegiance to our country as all other foreign personnel." I have been out in these countries where some Peace Corpsmen would just cuss our President with the most foul names you ever heard of, and they would have fellow Americans in the adjacent countries who maybe died that afternoon serving the United States. You know that they are free agents. I wouldn't know why you people wouldn't actually ask that the legislation be amended to where they would serve under the same basis as all other foreign personnel.

In order to keep the record straight and you can elaborate on it, these

people have been asked to leave 14 countries when there has never been one individual in your bilateral technical aid program who has been asked to leave a country. Some of them have been run out of the same country twice.

EXAMPLE OF VOLUNTEER PROJECT

I am not blaming this on you, but if you are not familiar with it, you ought to check into it. You might find that there is more under the crust than you see on the surface.

Could you describe a typical Peace Corpsmen and would you help me understand what he does? Let's get out on Uncle Jones' farm.

Do they help these people understand their community problems better? Teach them how to raise bigger chickens, produce better eggs, teach school, and instruct people how to do difficult things?

Mr. HESS. Yes, sir.

Mr. PASSMAN. Is that part of their work, to impart knowledge in this general area?

Mr. HESS. In many areas.

Mr. PASSMAN. I am trying to find out some of them.

Mr. HESS. I can give you a full illustration of what Peace Corps volunteers are asked to do. For example, Peace Corps volunteers in many countries are teaching future nurses, instructing them how to be nurses, how to take care of the sick and how to help in administering hospitals. There are doctors who are also helping to teach medicine in many of our countries.

Mr. PASSMAN. Let's broaden it. How about on the farms?

Mr. HESS. Let me take a specific country, Dahomey in Africa. We have volunteers who are working out in the bush, helping to train Dahomeans in animal traction, that is, having animals pull plows and other implements, and teaching them how to build those implements so that the production of the land can be increased threefold. Many of them had never seen a plow before, and yet they have animals there. They are in need of importing food from many countries throughout the world. The volunteers are also teaching them how to store that food during rainy seasons.

Mr. PASSMAN. Better seed?

Mr. HESS. They are also teaching farmers how to use better seed, not only in Dahomey, but in other countries as well. In education volunteers are helping introduce new curricula, helping to teach new math and science which we have developed here and which many countries are trying to learn.

Mr. PASSMAN. Let's get back on the farm. How about teaching them better how to care for their livestock and increasing production in raising chickens. Does it more or less cover the waterfront in imparting knowledge?

Mr. HESS. It depends on what the needs are for that country. Some of them are asking for volunteers in the field of animal husbandry, or for agronomists, or for volunteers who can help them improve feeds for their livestock.

DIFFERENCE FROM OTHER ASSISTANCE PROGRAMS

Mr. PASSMAN. That is good. You have described it as I have always described it, identical programs which are being conducted in the

bilateral and other technical programs. We had an agency in yesterday or the day before, a brandnew one, the Inter-American Foundation. It started as a little organization, whereby the personnel go out and teach these people how to do everything better. Then you have the bilateral technical aid program, the multilateral technical aid program, and the technical aid program under the Department of Agriculture. There are many programs and there is overlapping. The bilateral technical aid program also covers the waterfront, from your college professors right on down to the plowman. You are familiar with that, aren't you?

Mr. HESS. Yes, but I think that the Peace Corps is operating at a different level, at mid and lower manpower levels, and in remote areas of the country, Mr. Congressman.

Mr. PASSMAN. Not if it is how you just described it. I will have the technical aid people describe their program. Theirs is identical with yours. I have known it all along. It has been admitted time and time again in the record. I am sure that you know if you had some way of erasing this name "Peace Corps" this would be the most laughable thing before the American people. I am not criticizing all of these people. There are bad people and there are good people and there are people in between. Of course you have some wonderful people in the Peace Corps of all ages, but nevertheless the system by which they are permitted to operate has so interfered with many of the foreign countries' internal affairs that they have been asked to get out of the country. Some of the indictments I kind of resented myself. In one country they said, "You are corrupting the morals of our youth, get out." All of this is in the hearings.

ACTION SUPPORT FUNCTIONS

Could you state for the record at this point how much ACTION domestic programs and Peace Corps mingle their administrative work downtown?

Mr. HESS. Yes; there are a number of common supporting functions that are needed for any volunteer program, whether it is international or domestic. Recruitment is one of those. Accounting is another of those. Auditing is another of those. To the degree to which we can effect economies through scale of operations we will always be doing that.

COUNTRIES PEACE CORPS HAS LEFT

Mr. PASSMAN. I did read the correct number of countries from which Peace Corpsmen have been asked to leave; is that correct?

Mr. HESS. Peace Corpsmen have left 14 countries in the past.

Mr. PASSMAN. I am not trying to put words in your mouth. They have been asked to leave 14 countries for various reasons.

Mr. HESS. Peace Corpsmen have left 14 countries for various reasons.

Mr. PASSMAN. Now I am talking about for various reasons before their mission had been completed the countries had asked that the Peace Corpsmen be removed.

Mr. HESS. Yes.

Mr. PASSMAN. Is that a correct figure I have used?

Mr. HESS. Fourteen; yes.

Mr. PASSMAN. I won't pursue it. I cannot put my finger on anything but mythical accomplishments for the Peace Corps. If it hadn't cost anything it would be all right. I used to go out in the country and let the State Department and the AID people arrange my itinerary. Nothing good came from it from the time I left until I came back. They would get me in a room somewhere and I would see all the charts, listen to all the lectures and I would see many people. If they had anything good, they would take me to that and bring me back. Today when I travel, a telegram goes out saying "No parties, no entertainment, no lectures, and no tourist spots." I make up my own mind where I want to go, what I want to see and since I have started doing that I get some good information. Do you read me?

Mr. HESS. Yes, sir.

ANNUAL COST PER PEACE CORPS VOLUNTEER

Mr. PASSMAN. What is the annual cost per Peace Corpsman?

Mr. HESS. Approximately $9,700 a year.

Mr. PASSMAN. Does that include any benefits that he may receive after he leaves the Peace Corps, or is that all inclusive?

Mr. HESS. That includes the readjustment allowance.

Mr. PASSMAN. It is all inclusive?

Mr. HESS. It is all inclusive.

PERCENT OF BUDGET FOR ADMINISTRATION

Mr. PASSMAN. Of the total Peace Corps budget, what percent of it goes for administrative purposes?

Mr. HESS. It is approximately 33 percent for both the costs directly associated with the Peace Corps and for our share of the common administrative costs that I mentioned earlier, which include direct recruitment costs.

Mr. PASSMAN. Thirty-three percent would be for administrative purposes.

Mr. HESS. Thirty-three percent.

Mr. PASSMAN. Does that include advertising?

Mr. HESS. It includes all costs.

Mr. PASSMAN. I believe that you have a system, do you not, in ACTION and the Peace Corps where you get the news media to advertise without charge?

Mr. HESS. That is correct.

Mr. PASSMAN. What does it cost to arrange this on a gratis basis?

Mr. HESS. I believe our total costs in the past year were about $250,000. For that Peace Corps and ACTION received something like $9 million of free television time and space from the media.

Mr. PASSMAN. $9 million worth of advertising.

Mr. HESS. That was donated, yes.

Mr. PASSMAN. Regardless of how you get it, if it is donated it comes indirectly out of the pockets of the taxpayers, does it not?

Mr. HESS. Not necessarily, sir.

Mr. PASSMAN. How about the TV, the radio, and news? Aren't they in business for a profit? They are not in business for fun, are they? When they make a contribution and give you space in that newspaper or give you good commercial time on that radio, it is bound to reduce

their income, does it not? So the rates charged to the consumer go up.

Mr. HESS. We couldn't afford it if we had to buy it.

Mr. PASSMAN. I know you couldn't, but I say that then reduces their income, does it not?

Mr. HESS. Yes; but they are gracious enough——

Mr. PASSMAN. Let's just get the record straight, nothing comes free. Somebody has to pay for it, is that right?

Mr. HESS. That is right.

GAO REPORT ON PEACE CORPS TRAINING

Mr. PASSMAN. In the General Accounting Office report dated June 15, 1972, the following remarks were made concerning the Peace Corps: "Programing documents supporting individual projects were not in all cases adequately descriptive of the jobs that the volunteers would be performing which deterred the development of meaningful training programs."

Have you had an opportunity to check that?

Mr. HESS. Yes, I have.

Mr. PASSMAN. What is the response?

Mr. HESS. Our response to that?

Mr. PASSMAN. Yes; what about this statement. Is it accurate?

Mr. HESS. It was accurate at one point in time. But that report was published about a year and a half after the fact, and there were already changes made in these programs.

DIFFICULTIES IN RECRUITING SKILLED PERSONS

Mr. PASSMAN. It also says, "Peace Corps has experienced difficulty in recruiting a sufficient number of applicants having the qualifications, background or experience necessary for the program." Is that an accurate statement?

Mr. HESS. We have had increasing demands for higher skilled and more experienced volunteers. For example, in the field of agriculture, the demand has gone up by 240 percent. In the field of skilled trades it has gone up 270 percent. Nevertheless, Mr. Chairman, we have had an increase in the number of applications since 1971, and that is continuing to increase. We are hopeful of being able to fill these requests.

Mr. PASSMAN. With $9 million in advertising it is a wonder you wouldn't get so many applications it would take half your staff to open the letters. You are saying without the Peace Corps the world would surely come to an end within 30 days. You have heard some of that stuff; haven't you?

Mr. HESS. I have heard some of it; yes, sir.

Mr. PASSMAN. I think the report also said, "Applicants lacking the necessary qualifications, background, and experience terminated service more frequently, which increased the cost of training in relation to the benefits derived."

Mr. HESS. Yes. The GAO was very much concerned about our selection procedures. We are doing something about that through better selection and better application screening than we did in 1971 when the report was prepared.

EVALUATING TRAINING PROGRAMS

Mr. PASSMAN. I believe that the GAO said, "The Peace Corps does not have a system for the evaluation of the effectiveness of its training program on a continuing basis or for using these evaluations to improve subsequent programs."

Is that a statement of fact?

Mr. HESS. It was at that time; yes, sir. But we have embarked on evaluation programs for all of our training activities.

Mr. PASSMAN. This thing was not just born last night. It has been around a long time, long enough to spend $1 billion.

Mr. HESS. Yes.

Mr. PASSMAN. Since when did this cease to be a matter of fact?

Mr. HESS. Since when did what cease to be?

Mr. PASSMAN. Since when did the fact that the Peace Corps does not have a system for evaluation of the effectiveness of its training program on a continuous basis cease to exist?

Mr. HESS. We now have an evaluation system to do it on a systematic basis, that we are putting into effect this year.

Mr. PASSMAN. They also say, "The Peace Corps has not made full use of its training center in Puerto Rico. Fuller use of this center would lower the high per-person cost of training at in-house training centers."

Would you comment on that observation?

Mr. HESS. Yes, we agreed with them and are doing something about it.

ADDITIONAL FINDINGS OF HOUSE FOREIGN AFFAIRS COMMITTEE REPORT

Mr. PASSMAN. A New York Times article of February 11, 1973, quoted a staff survey made by the House Foreign Affairs Committee on the Peace Corps indicating that the Peace Corps sometimes substituted unqualified individuals which had adverse effects on the program. The survey also indicated some volunteers were very immature and whose level of expectation far exceeds their capabilities. Would you like to comment on that?

Mr. HESS. Yes. If that was true, and I do not know the source, we have changed that.

Mr. PASSMAN. I gave you the source of the information.

Mr. HESS. You said the New York Times.

Mr. PASSMAN. It came from the House Foreign Affairs Committee, one of their surveys.

Mr. HESS. You must be referring to the House Foreign Committee report.

Mr. PASSMAN. The Foreign Affairs Committee of the House.

Mr. HESS. We are correcting that through better selection, better recruitment, and better job descriptions.

Mr. PASSMAN. I am glad you are but I never knew before that there was anything wrong with the Peace Corps. You are the only man who ever admitted there was anything wrong with it and you are trying to correct these deficiencies. Heretofore, it has always been presented as something so holy that if you touched it it would fall apart. Another article in the Christian Science Monitor on June 30, 1972——

Mr. LONG. Are we through with the 5-minute rule?

Mr. PASSMAN. Yes.

ARTICLE ON VOLUNTEER ATTITUDES IN CHRISTIAN SCIENCE MONITOR

The article stated a survey of returned Peace Corps volunteers revealed that 74 percent felt the service had been of little value to the host country.

Mr. HESS. That was a survey that was made back in the 1960's, I believe.

Mr. PASSMAN. Let me read it again. An article appeared in the Christian Science Monitor on June 30, 1972, which stated: "that a survey of returned Peace Corps volunteers revealed that 74 percent felt the service had been of little value to the host country."

Mr. HESS. Yes. That survey, to which you are referring, was made in the 1960's, and partially as a result of that we instituted the policy of new directions which I think were described to you previously. We are hopeful that the attitude of volunteers has changed today.

EFFECT OF DEVALUATION OF THE DOLLAR

Mr. PASSMAN. Here is something that needs to be cleared up. I listened to questions earlier by some of our members relative to what effect the devaluation of the dollar had on the operations of the Peace Corps. Did it increase what you could do with the dollar or decrease what you could do with the dollars provided?

Mr. HESS. The recent devaluation?

Mr. PASSMAN. Yes.

Mr. HESS. It has decreased. You asked whether it has increased or decreased what we can do with the dollar.

Mr. PASSMAN. I thought we were told by the administration, by our economists, and other people who know something about our economy, that a dollar spent at home may buy more than dollars spent for imports. American dollars would buy more or at least an equal amount, and the devaluation would have no effect on the economy as such at home. Why would you have any serious devaluation of the dollar as it applies to the Peace Corps, because are not most of the dollars spent here?

Mr. HESS. About half of our dollars spent overseas as a result of our operations.

Mr. PASSMAN. Then you would be affected?

Mr. HESS. Yes.

Mr. PASSMAN. What are they spent for overseas?

Mr. HESS. They are spent to pay for the volunteers' subsistence allowance. They are spent for staff salaries. They are spent for our day-to-day operations.

Mr. PASSMAN. We would like the complete list.

[The information requested follows:]

Budget items affected by the winter, 1973 devaluation of the dollar

	Fiscal year 1974 budget estimate
Direct training (in-country training portion)	$11, 457, 000
Volunteer cost items	14, 152, 000
Living allowance	10, 555, 000
Settling-in allowance	803, 000
Medical supplies and services	1, 434, 000
In-country travel	488, 000
Volunteers supplies and equipment	119, 000
Vehicle purchases	86, 000
Miscellaneous volunteer costs	334, 000
Dependent support	333, 000
Overseas staff costs	5, 149, 000
Staff salaries for foreign national employees	1, 421, 000
Personal service contract costs	603, 000
Staff in-country travel	156, 000
Education allowance	135, 000
Staff housing	860, 000
Office rents, communications and utilities	860, 000
Staff—Other operating costs	688, 000
Staff maintenance, General Services	426, 000
Shared administrative support—State Department	3, 004, 000
Fiscal year 1974 budget impact due to devaluation	33, 762, 000

NOTE.—Present information based on our own analysis and a State Department review of effects on an overall basis indicate that the items affected will increase by about 6 percent or $2,000,000

INTERNATIONAL INSTITUTIONS

Mr. PASSMAN. So many times in these examinations we hear, as in the case of the International Development Association—if we put up 40 percent, another country will put up 10 percent, and another will put up 6 percent. If you go into these foreign parliaments and listen to debate on the floor as to why for example the United Kingdom should provide a contribution, they say "If we put up 12 we will get 40 percent from Uncle Sam." Then we find out that the former colonies of the United Kingdom are getting 60 percent of the total fund. Do you understand what I mean?

Mr. HESS. Yes.

Mr. PASSMAN. The donor becomes the recipient, but while they are doing that they also drain off our 40 percent. Do you understand?

Mr. HESS. Yes.

Mr. PASSMAN. Whatever the host country puts up, they are likewise the recipient of what they put up. Is that correct?

Mr. HESS. Yes, sir.

Mr. PASSMAN. The service is being rendered locally. We are making our contribution to the Peace Corpsmen, so whatever benefits may derive from this operation accrues to the benefit of the host country.

Mr. HESS. Yes, and that is the purpose of it.

Mr. PASSMAN. That is right, but they are then not only the recipients of whatever contribution they make but they are the full recipients of our contributions. Is that right?

Mr. HESS. Yes.

Mr. PASSMAN. I appreciate your frankness. It is a weak argument

when you say that if we put up a dollar they will put up a dollar. Actually they get both dollars. Is that right?

Mr. HESS. Yes, along that line of reasoning.

COORDINATION WITH AID

Mr. PASSMAN. Do you coordinate these technical assistance programs with AID?

Mr. HESS. Yes, both at the local level in the country and here in Washington.

COUNTRIES IN WHICH PEACE CORPS IS OPERATING

Mr. PASSMAN. In how many countries is the Peace Corps operating?

Mr. HESS. Fifty-eight.

Mr. PASSMAN. In how many countries did you operate in fiscal 1972?

Mr. HESS. Fifty-seven.

Mr. PASSMAN. In how many countries do you plan to have Peace Corpsmen in 1974?

Mr. HESS. We have requests outstanding for five new countries to serve during fiscal 1974.

Mr. PASSMAN. Do you have any Peace Corpsmen in Cuba?

Mr. HESS. No.

Mr. PASSMAN. You have them in Chile?

Mr. HESS. Yes.

Mr. PASSMAN. Do you have any in any Communist countries?

Mr. HESS. No.

Mr. PASSMAN. How many do you have in Chile?

Mr. HESS. At present, a total of about 35 volunteers plus dependents.

Mr. PASSMAN. When you begin a project do you usually try to estimate a termination date?

Mr. HESS. We do, yes.

Mr. PASSMAN. What is your current dropout rate for all trainees?

Mr. HESS. About 15 percent for all trainees. Training is also part of our selection period of time so we get the best qualified volunteers to serve.

Mr. PASSMAN. Is there any limit as to the length of time a staff member may serve in the Peace Corps?

Mr. HESS. Yes, there is, 5 years by legislation.

Mr. PASSMAN. I think it costs $9,700 to maintain a Peace Corpsman today?

Mr. HESS. Yes.

Mr. PASSMAN. How does that compare to the cost of 5 years ago?

Mr. HESS. Approximately $9,900 5 years ago.

STAFF OF PEACE CORPS AND ACTION

Mr. PASSMAN. How many individuals in your shop work both for the Peace Corps and ACTION?

Mr. HESS. Only Peace Corps staff are in my shop but Peace Corps is part of ACTION.

Mr. PASSMAN. I am speaking about your operation under ACTION.

Mr. HESS. ACTION has 569 employees working for both Peace Corps and domestic programs.

Mr. PASSMAN. Have you a breakdown as to how the division is made with respect to cost?

Mr. MARKHAM. Yes. The division is made based on the number of people working directly for Peace Corps and directly for domestic programs.

Mr. PASSMAN. I speak of those who work for both.

Mr. MARKHAM. Yes. We divided those based on the number——

Mr. PASSMAN. You divide the payroll?

Mr. MARKHAM. Yes.

Mr. PASSMAN. In the budgeting and accounting you charge the Peace Corps with half and ACTION with half?

Mr. MARKHAM. It is not half, sir. It is 66 percent for Peace Corps and 34 percent for domestic volunteer programs.

ENTERTAINMENT ALLOWANCE

Mr. PASSMAN. How much have you budgeted for 1974 for representation or entertainment allowance?

Mr. HESS. There is a provision of $5,000 for entertainment allowances in the legislation.

Mr. PASSMAN. I have never quarreled with adequate representation allowance for Federal agencies, but I wonder if you would tell the committee why the Peace Corps needs a representation allowance?

Mr. HESS. There are frequent occasions when we have distinguished visitors from other countries who come to consult with us. Some of them are entertained at modest dinners.

ACCOMPLISHMENTS OF FOREIGN AID

Mr. PASSMAN. On page 4 of your justifications you make several statements which are as follows:

"It is commonly agreed that the gap between rich and poor nations continues to widen despite two decades of concerted efforts by leading developed nations."

"The World Bank estimates 1 billion people are still hungry and malnourished and there are 100 million more adult illiterates today than 20 years ago."

That is pretty disappointing, is it not, after giving away $250 billion in 124 nations of the world? Isn't this program actually working in reverse?

You are familiar with what I am reading, are you not?

Mr. HESS. I am familiar with what you are reading. It could have been worse than that had there not been foreign assistance.

Mr. PASSMAN. Who knows but what it would not have been better if we had let people work out their own problems.

Mr. HESS. That might have been.

Mr. PASSMAN. I have known wealthy families who had children and they gave them bicycles, guitars, trumpets, saxophones, automobiles, and so on, who did not accomplish anything in life except perhaps a college degree. I have known poor families where the children stopped at high school, the child made good and became president of the local bank. Do you realize it would be better at times to let people work out their own problems?

Mr. HESS. Yes. In the Peace Corps countries where we work, these people are attempting to do that.

Mr. PASSMAN. You are getting away from the general statement. This appears to be worldwide. Remember, my dear friend, we are a new nation. We are really only 186 years away from the Constitution. While we were primitive and underdeveloped, many of these so-called underdeveloped nations were developed. While we were developing they were becoming undeveloped. It seems we are becoming underdeveloped trying to develop those who were previously developed. It is quite a puzzle, is it not?

Mr. COUGHLIN. I would like to observe that, at least in my opinion, the public criticisms of the Peace Corps which existed in years past have over the last few years very much subsided and I think that is a tribute to the change in direction which has been taken and it is a tribute to all of you who have been part of that.

Mr. HESS. Thank you, Mr. Congressman.

CATEGORIES OF VOLUNTEER JOBS

Mr. COUGHLIN. On page 6 of your testimony you indicate volunteers are sent overseas in response to specifically defined jobs identified in advance. These are requests from host countries?

Mr. HESS. Yes.

Mr. COUGHLIN. Can you supply for the record a list of the kinds of categories of work they do and the numbers of people you have in those job categories?

Mr. HESS. I would be delighted to do so.

[The information requested follows:]

CATEGORIES OF PEACE CORPS PROJECTS VOLUNTEER/TRAINEE DISTRIBUTION AS OF DECEMBER 31, 1972

Agriculture and Rural Development	1,518
Animal Extension	
Fisheries	
Forestry	
Horticulture	
Field Crop Extension	
Agriculture, education	
Home economics/Women's Extension	
Youth/4–H Extension	
Agriculture, co-ops/farm management	
Irrigation/water systems/wells	
Equipment maintenance/repair	
Agriculture community development	
Rural community development	
Environment/conservation	
Agriculture planning	
Business and public management	225
Credit co-ops	
Consumer co-ops	
Produce/Market co-ops	
Business/industry advisers	
Tourism	
Handicrafts	
Public administration	
Secretaries	

CATEGORIES OF PEACE CORPS PROJECTS VOLUNTEER/TRAINEE DISTRIBUTION—Con.

Education	3,248
Preschool teacher	
Elementary schoolteacher	
TEFL/TESL—English teaching	
English teacher	
Science teacher	
Industrial arts teacher	
Home economic teacher	
Business education teacher	
Educational TV/communication	
Vocational education	
Literacy teacher	
Sports/Physical Education/Recreation	
Teacher training college/education schoolteacher	
Teacher trainer/preschool education	
Teacher trainer/elementary education	
Teacher trainer/secondary education	
Administration/curriculum/guidance	
Librarian	
University	
Health education	
Agriculture education	
Health	545
Sanitation	
Health service coordinator	
School health education	
Maternal/child health	
Training medical personnel	
Nutrition	
Tuberculosis	
Malaria	
Filariasis	
Smallpox	
Family planning (medical)	
Family planning (general)	
Nurses	
Paramedical personnel	
Medical professionals	
Urban and Municipal Development and Public Works	919
Legal services	
Social work	
Urban community development	
Architecture	
Civil engineering	
Electrical engineering	
Other engineering	
Surveying	
General construction	
Building trades	
Highway/transport (maintenance/repair)	
City planning	
Regional planning	
Other [1]	354
Total	6,809

[1] Projects categorized as "Other" are those often performed by a single volunteer (individual placement) who possesses a high level of skill and degree of specialization. These specialized and often singular projects do not fit under any of the general categories for projects.

HOST COUNTRY NATIONALS ON PEACE CORPS STAFF

Mr. COUGHLIN. The second question I have is on page 10. You indicate a major percentage of the overseas staff are host countries nationals now—some 76 percent.

Mr. HESS. Yes.

Mr. COUGHLIN. How many foreign nationals does the Peace Corps employ?

Mr. HESS. 315 are now employed overseas.

Mr. COUGHLIN. I thought the purpose of this was to get our people there. I am a little confused on this.

Mr. HESS. It is the concept of partnership. We believe we should share many of the responsibilities of running the Peace Corps. We feel many times that host country nationals can better assist us in developing the programs to be more responsive to their needs. Furthermore, it is less costly if we use a foreign national as a staff member than an American. We find there has been significant improvement in our operations and programing. Many also participate in our training programs.

Mr. COUGHLIN. My concern was that one of the purposes of the Peace Corps is to expose other nationals to Americans and not necessarily to employ other nationals in their own program.

Mr. HESS. These are staff members in contrast to volunteers.

TESTIMONIALS FROM HOST COUNTRIES

Mr. COUGHLIN. As a result of the program and recent changes in the program, do we have any testimonials from host nations in terms of their appreciation for our sending volunteers there?

Mr. HESS. We certainly do. I would like to provide for you a survey we recently made on accomplishments in accordance with the three goals specified in the legislation. Included there are some of the testimonials we received and which we continue to receive, including visitations from ministers and other high government executives who come here and make representations about the value of the Peace Corps.

[The information referred to follows:]

A SURVEY OF PEACE CORPS ACCOMPLISHMENTS

INTRODUCTION

As envisaged by its founders, the Peace Corps had one distinct purpose: to promote peace and goodwill throughout the world. In pursuit of this objective, nearly 50,000 Americans have served in numerous developing countries since the Peace Corps was created in 1961. The Peace Corps still follows the three goals set for it by Congress in that year: (1) To help developing nations meet their needs for trained manpower; (2) to promote better understanding of the American people among the people served; and (3) to promote a better understanding of other peoples among Americans.

The Peace Corps is unique among U.S. Government programs overseas in its strong emphasis on the people-to-people nature of its service to host countries. As volunteers help train local manpower, their success depends in large measure on how they relate to people. The volunteers' job effectiveness and credibility depend heavily on their ability to speak the local language, appreciate customs other than their own, and adapt to living and working conditions considerably less comfortable than those found at home. In most developing nations, Peace Corps volunteers are the only Americans living and working as part of local communities throughout the country. Therefore, the second and third goals of increasing mutual understanding between people are part and parcel of the primary objective of training manpower around the world.

Host countries generally appreciate the Peace Corps as an expression of American interest in them, and an opportunity to increase American awareness of this development problems. Similarly, they value the unique contributions volunteers make through their jobs. When volunteers successfully complete their assignment, they do not leave behind the results of a large financial contribu-

tion subject to the problems of maintenance and depreciation. Instead, they leave behind general and technical skills with which local people can help solve their own problems and which people can pass along to their fellow countrymen.

As the Peace Corps over the years has improved significantly its technical contributions, it has continued to excel in its cross-cultural achievements. The program permits Africans, Asians, and Latin Americans to gain new insights into the American culture through their close association with volunteers. Culturally, the volunteers often conclude that they gain as much from their overseas service as they contribute. Yet the experience does not end with the completion of the Peace Corps assignment. Volunteers return to the States with keener perceptions of world needs, a deeper appreciaiton of foreign cultures, and often a strong desire to work toward the social and economic betterment of American society.

PART I

Peace Corps technical accomplishments

The following project examples, taken from detailed country analyses, illustrate the wide range of volunteer activities and accomplishments. An overview of all volunteers working in each job sector during the last year begins on page 9.

Agriculture and rural development

Over the last 4 years, five volunteers in Ethiopia resettled 600 previously landless farmers on 1,000 hectares of land.

Since 1965, the fish catch of local fishermen in Micronesia has been increased 20 percent due to the work of 25 volunteers in fisheries research. Another volunteer, the first to be involved in fish marketing in Micronesia, was responsible for the construction of a large cold-storage facility which greatly increased the ability of fishermen to compete in local and export markets.

In Guatamala, three volunteers train 30 cooperative managers and 500 members in cooperative management at the government's training school every year.

Peace Corps volunteer Jim Diamond in Chad constructed 48 pit silos in the last 2 years so that farmers are now able to save most of their cattle during persistent drought periods.

Sixteen volunteers assist in the management of 100 local farmer's associations involving more than 150,000 Malaysian farmers. Ten other Malaysia volunteers have been responsible for the training of 50 student farm mechanics and the maintenance of 1,000 tractors over the last 3 years.

In El Salvador, 12 volunteers developed 46 pasture grass demonstration plots and put into silage 4,000 tons of fodder to sustain milk producing cows during the dry season.

Since 1970, 90 volunteers in Liberia trained 170 Liberians in crop and animal production skills and directly assisted 1,800 farmers.

During the last 2 years, 10 Thailand volunteers established 200 demonstration farms featuring cash crops and, as a result, helped 600 Thai farmers double their cash-crop income. In another project, 40 volunteers trained 120 community development workers through the construction of 600 small dams, spillways, and bridges.

Five volunteers in the Ivory Coast transformed 25 villages into full-functioning cooperative units.

In El Salvador, two volunteers doubled the catch of a fishing cooperative from 80,000 to 170,000 tons last year by training 21 men in improved marine fisheries techniques.

Since 1968, 30 volunteers in Dahomey have turned normally nonproductive cattle into 250 trained pairs of oxen which significantly increased food production in rural areas where tractors are unobtainable. In addition, over the last 4 years, 40 volunteers have constructed 100 corn dryers and 175 cement silos with a capacity of 70,000 tons of grain order to make corn a new cash crop for Dahomean farmers.

Within the last 2 years, two volunteers in Mali increased by 100 percent the total oil extraction rate of citrus fruits which comprise the only cash crop in many parts of the country. Eight other volunteers have field-tested 300 varieties of cash-crop vegetables and selected 25 varieties for future systematic production by local farmers.

Education

Since 1963, 475 volunteer English teachers have taught more than 190,000 Iranian students and 240 Iranian teachers who participated in inservice English language courses.

Nineteen volunteers in Thailand developed and produced a standard TEFL (Teaching English as a Second Language) curriculum syllabus for the Ministry of Education. In addition, three other volunteers prepared and conducted new math seminars for 250 Thai teachers and translated a new math workbook into Thai, now available in all schools.

In Swaziland, 9 volunteer skilled tradesmen teach 6 basic trade skills to 330 students each year at the Industrial Training Institute.

Published last year by five volunteers in Western Samoa were: Western Samoa General Science Work Cards and Teachers Notes; The Western Samoa Form One Social Studies Course; Students Workbook and Teachers Guide and Physical Education Notes for Samoan Schools.

Other the last 10 years, 800 volunteer teachers in Liberia taught mathematics, science and social studies to 150,000 students in 95 elementary schools and 98,000 students in 35 high schools.

One volunteer is developing mathematics and science materials for Malaysia's educational TV unit which will reach 86,000 primary and 418,000 secondary students.

In Ethiopia, three volunteer teachers produced an industrial arts curriculum and book on home economics teaching aids for the Ministry of Education.

Seven volunteers in Thailand taught 800 students in farm machinery repair; developed 10 laboratory manuals and trained 28 shop teachers in practical farm mechanization techniques.

In each year since 1969, 25 volunteer teachers have taught mathematics and science to 8,000 Botswana high school students.

One volunteer in Morocco is training 30 high school graduates as trilingual secretaries in a United Nations-sponsored project.

Since 1971, five Thailand volunteers produced twenty 25-minute educational TV programs while training six Thais in production techniques.

In Sierra Leone, 41 volunteer teachers upgraded 600 inservice primary school teachers affecting the quality of education of 60,000 primary students in 200 schools.

Ninety-four volunteers have served in preschool programs in Morocco since 1964 and trained 200 preschool teachers and supervisors.

In Afghanistan, 11 volunteers are currently involved in teaching vocational English to 1,500 students in 8 Government institutions ranging from the school of public administration to the telecommunications scchool.

Health

In a joint WHO/PC program started in 1970, 14 volunteers detected 44,300 cases of smallpox; inoculated 6,665,100 Ethiopians, and most importantly, eradicated smallpox from 7 of Ethiopia's 14 provinces.

Since 1967, 180 volunteers serving in Korean rural health centers in tuberculosis control, worked directly with more than 3,000 health center employees, cosupervised 1,800 TB workers, and participated in the treatment of 60,000 TB patients.

One volunteer X-ray technician in Honduras increased the number of functioning hours of 20 X-ray machines in 10 hospitals by 20 percent.

In Thailand, 6 volunteers have introduced new techniques in child nutrition centers, established 5 more and cared for 200 preschool children.

Over 135 volunteers, working over the last 10 years in Thailand, have helped reduce the incidence of malaria by 90 percent.

Two volunteer M.D.'s in Ethiopia established a pediatric training clinic and the country's first school for physiotherapists.

Last year, 3 volunteer nurses helped identify, train, and supervise 70 local community health Honduran volunteers in 50 rural communities. Five other nurses in Honduras are currently providing curative nursing care to 30,000 patients in 6 hospitals and training 100 hospital staff through inservice nursing programs.

Since July 1972, 4 Peace Corps teams have been working in tuberculosis control in Afghanistan and have trained 12 counterparts, established 4 Provincial clinics, introducer TB control to 8 general health clinics, and participated in the treatment of 1,000 patients and the innoculation of 10,000 people.

Urban development and public works

Since 1965 when Peace Corps' participation in Iran's public works/urban planning program began, 76 volunteer civil engineers, architects, city planners, urban designers, economists, and sociologists have designed and implemented

the following projects: forty-eight 5-year city growth guide plans, 45 city parks, 34 urban design projects, 52 architectural projects, and 25 research projects.

Three volunteer engineers in Ethiopia installed water systems in two towns, initiated the construction of two others, completed an electrification system in another town, and are presently working on similar systems for two other towns.

Thirty-nine volunteer architects and urbanists, serving in Morocco since 1969, have provided technical assistance to 110 Moroccan architects and draftsmen and established a school for draftsmen.

A volunteer architect in El Salvador designed a 500-unit housing project for low-income families.

Since 1966, over 100 volunteers have been involved in community planning and development in Micronesia, assisting in the design and construction of the Ponape and Truk airport terminal buildings; Palau, Yap, and Ponape dispensaries; the Ponape Harbor; hotels in Majuro and Ponape; "typhoon houses" in Saipan; and the permimeter road in Ponape.

A team of 10 volunteers and 30 Sierra Leonean counterparts built two 60-bed hospitals with operating rooms and staff quarters.

Four volunteers currently serving in Tunisia are supervising the reconstruction of 240 wells in a Province where polluted water and abandoned wells were a major problem, completing 180 of these wells to date.

In Sierra Leone, 8 volunteers surveyed, designed, and built 6 water systems and installed 65 wells for 6 large towns, trained 20 Sierra Leoneans to maintain them, and began construction on 20 more water systems.

Since 1969, 9 volunteer civil engineers and architects in Western Samoa have helped construct 50 miles of roads and bridges; designed and constructed the runway for the country's only airport; designed the air terminal building and the widely praised Samoan Parliament Building.

Over 1,000 wells have been constructed in rural villages in Upper Volta, Chad, and Niger by volunteers over the past 3 years, providing villagers with pure water for the first time in their history.

Business and public management

In Ethiopia, 4 volunteers put a marginally productive garment industry and a handicrafts business, employing 350 people, on a profitable management base.

During 1972, 5 volunteers in Micronesia assisted 10 businessmen in the Marshalls district to develop efficient bookkeeping systems and aided 6 other Marshallese to procure loans for commencing businesses.

Twenty-two Malaysia volunteers with accounting and public administration training installed comprehensive systems of program and performance budgeting and accounting in 90 government departments.

In El Salvador, volunteers supervised a $65,000 loan program for small cooperatives and put into operation a cooperative employing 24 previously unemployed weavers.

OVERVIEW: VOLUNTEER ACTIVITIES AND ACCOMPLISHMENTS

In order to reflect a world-wide picture of the technical output of 6,793 volunteers working in 58 developing countries last year, the following surveys the major volunteer activities and accomplishments within each of the five job sectors.

SECTOR: AGRICULTURE AND RURAL DEVELOPMENT

(Number of volunteers: 1,955—29 percent)

583 volunteers are directly assisting more than 2,500 local farmers to increase their crop production capabilities through extension services.

177 volunteers are working with more than 1,500 farmers to improve livestock quality and production through artificial insemination, improved stock feed, veterinary and marketing projects.

For the first time in their history, over 100,000 villagers and farmers are receiving adequate supplies of pure water because *96* volunteer engineers and building specialists constructed many town water systems and over 1,000 wells and boreholes.

20,000 farmers became members of 150 marketing cooperatives by working with *194* volunteers.

470 volunteers were responsible for training over 2,000 cooperative managers.

76 volunteers trained 1,000 fishermen and improved their catch returns in many fishing villages and cooperatives around the world.

359 other volunteers worked with host country people in forestry, home economics, 4-H clubs, farming equipment repair and maintenance, conservation and agricultural research and planning.

SECTOR: EDUCATION

(Number of volunteers: 3,117—46 percent)

All developing countries with which the Peace Corps works consider teaching as the most potentially valuable contribution volunteers can make. The future of these countries will depend heavily on the amount and quality of education that these governments can provide.

860 volunteer teachers are teaching English to 172,000 students in countries where English is taught as a second language. Another *604* volunteers are teaching English to 120,800 students in countries where English is an official language but the quality of spoken and written English is low. All of these teachers are meeting a critical need because the lack of English training prevents students from using an enormous amount of resource material written in English thereby making anything more than a limited education impossible.

Mathematics and science subjects are taught by *728* volunters to 145,600 students who will eventually use these skills to advance the technical development of their countries.

59,800 other students are receiving valuable job training in industrial arts and vocational subject through *299* technical education volunteers.

315 volunteer teacher trainers are instructing 63,000 host country teachers in improved teaching methodology and up-graded subject matter skills.

22,000 university students are being taught by *110* volunteers.

Another 36,400 students are receiving training by *201* volunteers in home economics, business education, educational TV, adult education, sports and physical education, and library science.

All told, 3,117 volunteer teachers taught 621,600 students last year.

SECTOR: HEALTH

(Number of volunteers: 814—12 percent)

The volunteers working in this area often bring health services to people who have never received any kind of health care before. On a worldwide basis only 1 percent of the developing world's population of 2.5 billion receives the services provided by these volunteers:

63 volunteers provided maternal and child health care to 7,500 mothers and 30,000 infants and children.

Approximately 10,000,000 people received innoculations against smallpox, were treated for tuberculosis or had malaria eradicated from their area through the services of *163* volunteers.

76 Peace Corps nurses treated 45,600 patients and assisted with the up-grading of skills for 1,200 local medical staff.

2,300 nurses aides, laboratory technicians and midwives were trained by *46* paramedical volunteers.

43,000 patients were treated by *43* volunteer doctors and medical professionals.

Another *358* volunteers provided needed skills in nutrition, school health education, various medical services and family planning.

SECTOR: URBAN DEVELOPMENT AND PUBLIC WORKS

(Number of volunteers: 491—7 percent)

The many services that the volunteers in this area bring to hundreds of towns and villages and local government bodies are vital to the plans of developing countries where strong physical and administrative infrastructures are needed in order to foster development on all economic levels.

122 civil, mechanical and industrial engineers and surveyors are building roads, bridges, and community buildings of all types used by thousands of host country citizens.

Hospitals, schools, feeder roads, rural and urban electrification systems, and water distribution systems have been constructed by *127* general construction and

building tradesmen as part of hundreds of major projects involving other host government agencies and personnel.

49 Peace Corps architects designed airports, public buildings, housing complexes and markets which affect the daily lives of thousands of people. These volunteers also trained several hundred draftsmen and provided project supervision.

In addition, another *198* volunteers provided expertise and advice through legal services, social work, urban community development and city and regional planning.

SECTOR: BUSINESS AND PUBLIC MANAGEMENT

(Number of volunteers: 416—6 percent)

These volunteers provide management services to a variety of private and government groups which lack the internal resources necessary to obtain full organizational potential.

109 volunteers provided business experience and knowledge to over 5,000 host country members of numerous credit, consumer, and marketing cooperatives.

Many government departments and agencies received assistance in bookkeeping and other management systems from *100* public administration volunteers.

176 volunteers work with small businessmen and industries to obtain loans and improve internal management and financial systems.

Another 31 volunteers train host country people in hotel management techniques and how to improve the management of cottage industries.

PART II

Peace Corps accomplishments beyond mid-level technical development

Every Peace Corps volunteer is recruited and trained to perform a particular job determined by the host country to be important for its own social or economic development. These jobs each have a specific set of objectives geared to training local people in technical, practical, or academic skills with which to help themselves. As discussed in the previous section, the accomplishments of volunteers in pursuing these primary activities are usually measurable in terms of how many people are taught in various training institutions, how many schools or hospitals are constructed, how many people are innoculated, or how many acres of land are introduced to modern methods of cultivation each year.

In addition to these contributions to mid-level technical development, however, the Peace Corps assesses its accomplishments in five other major areas as presented below. Benefits accrue to the volunteers and the local people they befriend and affect as mutual understanding improves between Americans and people of other countries and cultures. In the process, the Peace Corps helps to generate goodwill and a more personal image for the United States in the eyes of developing countries. By cooperating with other international development agencies, the Peace Corps often supplements the efforts of organizations like USAID, World Bank, and other international volunteer organizations. And upon completing their service overseas, volunteers return to American society as a constructive, experienced resource for addressing domestic problems in their chosen careers.

Volunteer innovations—New host country programs

Developing countries often find Peace Corps volunteers to be a source of innovative ideas for tackling critical problems with the limited resources available. The practical application of such innovative ideas has led to a number of new programs which have been adopted and developed by host countries themselves.

Separate studies developed by the Africa and NANEAP (North Africa, Near East, Asia, and Pacific) regions indicate that now fully 10 to 15 per cent of their formal requests for volunteers from host countries are for primarily innovative projects such as launching new audit departments, organizing new cooperatives, redesigning national school curricula, and introducing new methods of teaching, well construction, and crop cultivation.

Beyond these formally requested assignments, however, a recent survey of Peace Corps countries revealed the following examples of new host country programs which were originally stimulated or initiated by volunteers.

1. Peace Corps projects in Dahomey offer three specific examples:

Peace Corps began supplying volunteers for an experimental school gardens

program in February 1968 responsible for supervising the agricultural activities in 10 to 15 rural primary schools. There were no Dahomeans doing this job at that time. Today it is a recognized part of Dahomean education, and over 200 rural primary schools are involved in the program. There are now only two remaining PCV's assigned as roving advisers; there are 16 Dahomeans employed by the Ministry of Education to continue this work.

In June 1969, four PCV's were assigned to the poorest region of Dahomey. Their job was to introduce the use of oxen-drawn plows and ox-carts to farmers, help interested farmers locate and train suitable bulls, and arrange for credit for plows and oxcarts. During the first year, the four volunteers managed to convince four farmers to adopt this new technique. By 1972, 142 additional farmers had joined. For the coming season, 200 new farmers have already expressed their intention to participate in this project and the local Dahomean agriculture extension agents are taking over responsibility for the project.

Up until the present time, the Dahomean Government had no program for assisting local farmers to effectively dry and store their corn, over 30 percent of which is lost each season to rodents, insects, and moisture damage. Large scale metal storage units of 500 to 1,000 metric ton capacity have been built in regional centers, but these units do not assist the average farmers in preserving his own harvest. In February 1968, four PCV's were assigned to develop an efficient but low cost system of drying and storing corn which could benefit local farmers. Five generations of PCV's have worked in small villages to develop a feasible system which could be taken over by the government when proven to be sound. In March of this year, the Government will allocate approximately $100,000 which, for the first time, will include funds to extend the system of drying and storing developed, tested, and proven by PCV's.

2. In Ethiopia, the Gewani Agricultural Vocational School, a 2-year boarding school to teach unschooled Afar nomads modern agricultural techniques, was started by two Peace Corps volunteers. They initiated the idea, sold it to the Ministry of National Community Development, designed the buildings, and obtained a $5,000 school partnership grant. The grant was supplemented by $10,000 supplied by the Ministry and $4,000 contributed by the Afar people. Construction of the school has been completed and a subsequent Peace Corps volunteer was designated the first school director. Classes started February 5, 1973. Peace Corps will continue to supply a few volunteers for the school although most of the instructors and staff will be supplied by the Ethiopian Government.

3. In the Ivory Coast, during 1970–71, one voluntary couple was assigned to work with a village to assist in the development of a cooperative. As a result of their work, the village now has a variety of established businesses: gas station, shoe store, tailor shop, food store—employing 25 Ivorians at various labor and management levels.

4. In Micronesia:

Teaching English as a second language (TESL): The Peace Corps strongly sponsored the introduction of this program into the local curricula. TESL is now Micronesian staffed and operated.

A volunteer developed the design for a typhoon-resistant house, a model now being used for many new houses in Saipan.

5. In the Dominican Republic, a volunteer swine production specialist was primarily responsible for the organization of seven small swine producers associations in order to obtain credit available from the National Community Development Office. Since he completed his tour in June 1972, the associations have grown to include over 250 small swine producers who have been able to obtain more than $32,000 in production credit during the last year. As a result of these loans, the participating farmers have been able to increase their personal incomes through the use of the more efficient techniques learned from the volunteer.

Volunteer secondary activities

The secondary activities of volunteers produce the most unsung accomplishments of the Peace Corps. In the early days, volunteers were continually encouraged to seek out or initiate additional ways to contribute to their communities no matter how demanding or time consuming their primary assignments were. This has meant spending evenings, weekends, and school holidays working on projects not found in their job descriptions. Such extra effort has distinguished the Peace Corps from other development agencies and facilitated the acceptance of volunteers into their communities.

The primary indicator that the Peace Corps has succeeded in distinguishing itself for its secondary activities is that it has become a firm expectation on the part of local people wherever Peace Corps volunteers serve. Upon arriving in a village where a volunteer has served in the past, a new volunteer no longer has to worry about seeking out additional activities. Instead, the new volunteer generally has to sort through competing requests for his or her spare time as neighbors, colleagues, and community leaders seek advice and assistance.

A recent survey of the 58 Peace Corps countries indicated the following typical secondary activities of volunteers over the past year.

1. In Botswana, volunteers spend spare time:

Tutoring adults who are taking correspondence courses.

Coordinating the national softball team.

Organizing new local sports clubs.

Conducting midservice teacher upgrading conferences during school holidays.

Digging drainage ditches, laying classroom foundations, and preparing garden plots for a new farmers' brigade student settlement.

Preparing educational radio broadcasts.

Assisting understaffed cooperatives with bookkeeping.

2. In Cameroon:

Several TEFL teachers have set up evening English classes in their communities which are attended by Cameroonian teachers, parents of their regular students, and local civil servants.

One volunteer helped her students build a volleyball court as there were no physical education activities at her school.

One volunteer solved the overcrowding problem at his high school by finding self-help funds, designing, and building a new wing at his school.

One volunteer divided the hours of her summer months between directing a youth camp and teaching leprosy patients how to sew.

3. In Peru, the volunteers:

Have continued to assist communities in the construction of 187 schools through the school partnership program in their spare time since 1964.

Support basketball and water polo teams and competitions.

Form science clubs and hiking expeditions for schoolchildren.

4. In Ecuador, volunteers:

Work part time in the Quito orphanage, seek funds for more food and clothing, and stimulate local interest on adoption.

Provide recreational opportunities at a school for deaf and blind children.

Conduct evening English classes for local citizens.

5. In Mauritius, volunteers extend their activities beyond those assigned by:

Organizing and supporting two separate Mauritian youth service clubs.

Conducting weekly first aid classes for interested people in the community.

Contributing in one way or another to a major farm village pilot project by eradicating scabies, locating local water supplies, and introducing small-scale agricultural production.

Raising funds and teaching part time at a school for deaf children.

6. In Thailand, secondary activities entail:

Education volunteers averaging more than 5 hours a week in special English tutoring projects and expanding school libraries.

Rural public works volunteers teaching English to colleagues and host families, athletic coaching, and designing construction projects in their communities.

Health volunteers translating medical reports and technical books in addition to teaching English to colleagues and students.

Supplementing other development organizations

Peace Corps overseas staff coordinate their programs to the extent possible with other international or multinational development agencies operating in each host country. Volunteers are made available for suitable jobs in projects supported by loans or grants from the large organizations like the Agency for International Development, the World Bank, and various United Nations affiliates like the World Health Organization. Often such volunteer activities entail the application or extension of modern technology or methodology to remote rural areas where professional experts and advisers are seldom assigned.

Furthermore, the Peace Corps actively provides assistance upon request to some of the newer international volunteer organizations like the Canadian, British, German, Dutch, Swedish, Japanese, and United Nations volunteer agencies. The Peace Corps has become recognized in this community for its wealth of experience and expertise, particularly in methods of language and cross-cultural training for volunteers.

The following are current examples of the Peace Corps cooperating with and supplementing the efforts of other international development agencies toward the goal of benefiting the host country in the most effective way possible:

In Upper Volta an AID specialist on contract from the Communicable Disease Center in Atlanta supervises a program which has four Peace Corps volunteers working at the field level in an epidemiological project.

In the Dominican Republic, a dozen Peace Corps volunteers work in projects sponsored by the United Nations Food and Agricultural Organization, the Inter-American Development Bank, the Inter-American Foundation, the Pan American Foundation, and the Organization of American States.

In Paraguay, 11 Peace Corps volunteers work, at the middle levels of 3 AID-sponsored projects in education, credit cooperatives, and livestock improvement. An additional 23 volunteers work in several agricultural projects supported by the Inter-American Development Bank.

In Korea, Peace Corps volunteers work jointly with the World Health Organization (in tuberculosis detection and treatment) and an International Labor Organization supported vocational education program.

In Western Samoa, volunteers comprise 50 percent of the faculty of the new Technical Trades Institute, sponsored by the International Labor Organization, and work with the United Nations development program revising the science curriculum.

Domestic benefits at home from volunteer experience and growth overseas

Regardless of age, Peace Corps volunteers gain valuable experience by coping with difficult development problems, increasing their awareness and understanding of different cultural groups within countries, and often feel they have gained in personal maturity. When they return to the United States, approximately 73 percent move into service-oriented careers where they contribute directly to American society in educational, governmental, or nonprofit institutions. The remaining 27 percent make similar contributions while choosing careers in the private sector where their improved problem-solving abilities, patience, and understanding of different cultural groups are also vital assets.

A survey of returned Peace Corps volunteers employed as of June 30, 1972, revealed the following areas of employment based on 2,760 responses to a questionnaire (out of approximately 45,000 returned volunteers as of that date):

Employed with:	*Percent of total responding*
State agency	11
Federal agency	11
Local government	5
Private firm	27
Educational institution	35
Social services	6
Health services	5
	100

The following statements of volunteers who have been in the Ethiopia smallpox eradication programs between 6 months and almost 2 years as of February 1973 illustrate typically varied responses to the question: "What effect has working in the smallpox eradication program had on your life and future plans?"

"Effects on my personal life, philosophy, et cetera. Invaluable experience in public health, which is my career orientation. A real, honest-to-God knowledge of what poverty is. A deeper, and I think now more realistic, idea of what Third World countries could use; and how I could help. * * * Many friends who have taught me, usually without their knowledge, other ways of looking at things. The realization that one can live comfortably and decently without all the expectations that many Americans (and other Westerners) have. * * * Some satisfaction from seeing very tangible results from the work I am doing (such as clearing an endemic area of smallpox), tangible results which other Peace Corps volunteers may not see from their jobs (for example teaching). * * *"

"I have found the program to be challenging and at the same time rewarding. I was leaning toward pharmacy school when I joined Peace Corps but had never given much thought to the epidemiological side of public health, especially communicable disease control."

"My work has convinced me that field biology should be pursued upon completion of Peace Corps service. Also I have become greatly interested in all those little organisms causing the great variety of disease in Ethiopia. If only I have a microscope, stains, and culture media!"

"I plan on a medical career. This program enables me to see a variety of diseases that many doctors in the States never get to see except in a textbook."

"As for a career in health related field, * * * well * * * I would never rule it out, however I've been looking into schools of African studies and hope to be accepted there."

"The program has had a definite effect upon my future plans. I intend now to continue my education possibly in public health, but definitely with the goal of returning to one of the Third World nations and applying my skills and energies toward their development. My experience in Wollega has served to strengthen original plans and has allowed me to see more clearly how best to apply my energies."

Generating goodwill for the United States

Host country appreciation for contributions that Peace Corps volunteers make is expressed in a number of ways which indicate explicitly that goodwill for the United States continues to be an outstanding byproduct of the volunteers' other accomplishments:

One indicator that volunteers are succeeding is that preliminary requests from the current 58 host countries for more volunteers continue to outnumber those requests which are finally approved and filled by an average margin of 3 to 1. Thus for the projected fiscal year 1974 trainee input of 5,760 the Peace Corps estimates that at least 17,000 preliminary requests for volunteers will have been made by host country government officials. The gap is largely accounted for by requests that turn out to be unsuitable for Peace Corps programing.

In the past year five new countries have asked for the services of Peace Corps volunteers, and up to five additional countries are expected to extend official requests for small projects by the end of fiscal year 1974.

Host country media and high government officials around the world continue to praise the efforts of volunteers publicly, through official communications, by bestowing high honors on outstanding Peace Corps personnel in their countries.

Over the past several years the Peace Corps has made a major, if somewhat subtle accomplishment: Most host countries now treat and regard their Peace Corps volunteers as their own civil servants—expected to speak local languages, eat traditional food, and interact freely with all levels of local society.

The following are but a few samples selected from an average of more than 3,000 annual host country newspaper stories, official statements, and other communications which all speak to widespread goodwill generated by Peace Corps volunteers:

An example of a representative official statement about Peace Corps/Cameroon was recently made by the Honorable B.T. Sakah, Secretary of State for Rural Development, at the conclusion of an in-country volunteer training program for inland fisheries development. Below are some of the most significant parts of the statement:

"I welcome you to witness this ceremony marking the end of an in-country training course for U.S. Peace Corps volunteers, who will work mainly in the Inland Fisheries Section of the Department of Agriculture. Allow me to say a few things to the American Peace Corps volunteers who have come to replace their colleagues to work with Cameroon farmers. You are from today staff of the directorate until your contract ends. I am happy that you have lived with farm families in Nkwen village for the past 5 weeks understudying some of the problems you will solve in the stations to which you have been posted.

I appeal to you not to be very impatient because farmers are conservative all over the world. The first duty of agricultural agent is to educate farmers to do better in their business. I am confident that you will live up to this expectation.

Once more, my government deeply appreciates the good relationship existing between the United States of America and the Federal Republic of Cameroon in promoting the technical services of my country through the participation of human resources. Our wish is to welcome qualified technicians who are hard working and dedicated to serve other people in the developing nations. On the other hand, I hope that foreign personnel can also take back to their countries some aspects of our Cameroon culture, especially about peace and understanding which bring happiness to mankind.

In conclusion, therefore, I thank the U.S. Peace Corps, the Oxfam organization, other technical aid cooperators and the Cameroon Government as a whole for participating actively in the inland fisheries development of Cameroon."

Also in Cameroon:

One volunteer was crowned honorary chief on different occasions by two different villages for his work in fish pond construction. This included presentation of the red feather and porcupine quill as well as two sets of traditional clothing.

Two volunteers have been invited to join very selective, traditional societies for their well-respected status in their communities. A rare honor given to foreigners, this was due primarily to their effective work as well as their attitude.

One volunteer discovered five new species of fish in Cameroon. The Government so respected his work that one of the species was named after him in a Radio Buea announcement.

TRANSLATION OF LETTER FROM VILLAGE CHIEF TO PEACE CORPS DIRECTOR/IVORY COAST

JULY 27, 1972.

SIR: At the meeting held in Banguié the 9th of September under the patronage of . . . , a specially warm feeling filled the hearts of every inhabitant of Banguié. The purpose of the meeting was to celebrate the completion of 24 days of work dedicated completely to making a survey of the village.

It takes singular courage to undertake the work in this black forest of Banguié, especially when one realizes its inherent dangers. Only a rare person would agree not only to do this work, but to do it free of charge. The young American volunteer, Robert Joseph Burke, has once again proven to the Abbey (tribal) world the greatness of young Americans.

Thus, in accordance with our dynamic Sous-Prefet, the whole population of Banguié is assembled to express their thanks and gratitude not only to PCV Burke but to the whole American Peace Corps in the Ivory Coast. And to put our gratitude into tangible form, a monument will be erected to commemorate the Peace Corps of the United States when the new village of Banguié is built.

In the name of (all the notables), the whole population of Banguié extends to you their warmest thanks.

ABIE KACOU LEMBE,
The Village Chief.

JOHN F. KENNEDY MEDICAL CENTER,
Monrovia, Liberia, February 15, 1973.

PETER B. POLATIN, M.D.,
Medical Program Technical Representative,
Peace Corps, Monrovia, Liberia.

DEAR DR. POLATIN: I take the opportunity through this medium to inform you of the splendid and valuable services the Peace Corps assigned to the John F. Kennedy Memorial Hospital are rendering.

The Peace Corps here have been well received and have truly identified themselves with their Liberian coworkers and by so doing they have been able to achieve maximum cooperation and satisfactory results in the exercise of their various projects and assignments.

In evidence of their many rewarding contributions to the improvement of the hospital they have imparted both practical and technical know-how and an in-service training program for upgrading the standard of employees on all levels has been set up. In addition, employees have begun to respect the dignity of labor and are more willing to readily accept blue-collar jobs as a result of their contact with the Peace Corps.

On a whole, therefore, the Peace Corps have made a favorable impression and have helped considerably in improving the operation of the hospital, for this we are grateful and hope that all future services will be equally rewarding.

Sincerely yours,

CECILIA M. KENNEDY,
Hospital Administrator.

REPUBLIC OF LIBERIA,
DEPARTMENT OF INTERNAL AFFAIRS,
Monrovia, Liberia, February 15, 1973.

Mr. DANIEL GOE,
Director of Peace Corps,
Peace Corps/L. Monrovia, Liberia.

DEAR MR. DIRECTOR: For the past 3 years the Ministry of Local Government, Rural Development and Urban Reconstruction has had Peace Corps volunteers working in its rural development program. These volunteers throughout the 3 years have worked hard in the building of roads, schools, and markets in the rural areas of Liberia. These volunteers have been a constant inspiration to the less fortunate citizens of our country. Their untiring efforts in encouraging people to help themselves has been greatly appreciated not only by the people themselves but by the county administrators for whom they work directly as well as everyone in the Ministry in Monrovia. It is only through efforts similar to those shown by these volunteers that Liberia will be able to develop.

The volunteers we have in the field have helped the people of the small villages write requests for assistance to the Ministry, explained the policies of the Ministry with regard to these projects, and, once assistance has been found, have assisted in the construction of the projects. The volunteers in the Ministry in Monrovia have helped to develop the rural development program to maximize the amount of assistance we can give to the people in the rural areas. They have standardized building plans as well as office procedures to help the program run efficiently.

In return for this assistance the people in the rural areas have shown their appreciation of the untiring efforts of these volunteers by making the volunteers honorary paramount chiefs of the areas. Although it may seem only a token, to the volunteers working in the areas it is the highest honor that these people can bestow on someone. On one occasion, the people of Selegar, Lofa County, named a 112-foot bridge after the volunteer who was instrumental in getting the bridge constructed.

It is with great pleasure that I mention to you these ideas. Too often we think of things to say but never quite express them in the right time. Therefore I am taking this opportunity to express the Ministry's appreciation with the Peace Corps program that we have within this Ministry.

Sincerely yours,

EVERETT J. GOODRIDGE,
Minister of Local Government,
Rural Development and Urban Reconstruction.

DEPARTMENT OF THE PUBLIC SERVICE,
Suva, Fiji, February 1, 1973.

PEACE CORPS IN FIJI

Fiji, like many other developing countries, is short of trained personnel in many fields (agriculture, education, forestry, rural development to name some).

The training of local personnel is now well in hand but there is a time lag before sufficient numbers of trained young local men and women become available to fill all of Fiji's needs in the various professional, technical and social fields.

Since 1968–69 U.S. Peace Corps volunteers have given Fiji excellent services in filling the gap. This has been particularly so in the field of education where Peace Corps volunteers have capably manned the newly instituted junior secondary schools (about 26 in number) which are beginning to noticeably enhance the education of the rural Fijian children; the improvement of Fijian education is a top priority objective of the present Government of Fiji. It would be no exaggeration to state that the junior secondary school system could not have gotten under way without the Peace Corps volunteers. Until sufficient trained teachers are available (they are becoming available at about 70–90 a year now) Peace Corps volunteers are essential to maintain the junior secondary school system in Fiji.

Peace Corps volunteers have similarly contributed to our efforts in agriculture, fisheries, forestry, cooperatives, rural development (engineers) and in other spheres of education, e.g. the U.S.P.

All in all Peace Corps volunteers have made a real and substantial contribution in our development programs and in our efforts to develop our most valuable resources, our people.

The Government and peoples of Fiji are most grateful for all that Peace Corps volunteers have done and are doing to help our young country and its peoples.

Vinaka vaka levu.

C. WALKER,
Secretary for the Public Service.

THE EMBASSY OF FIJI,
Washington, D.C., February 15, 1973.

Mr. DONALD HESS,
Director of Peace Corps, International Operations, Washington, D.C.

DEAR MR. HESS: I have much pleasure in writing this brief note to you in order to express the appreciation of the Government and people of Fiji for the excellent work that has been done and is being done by the Peace Corps volunteers in Fiji. Since 1968, when the first Peace Corps volunteers arrived in Fiji, we have developed a very close and cordial relationship with your organization. This relationship flourishes and the Peace Corps continues to be held in high regard by the people of Fiji.

There is no need for me to give a sketch of Peace Corps activities in Fiji as I have no doubt that you will have this information from the Director of Peace Corps in Fiji. The contributions made to Fiji by the volunteers have been so great especially in the economic, social and administrative sectors, that the Government has counted on their support in carrying out the development programs set out in our development plan for 1971–75.

Ex-members of the Peace Corps still maintain a close contact with their many friends in Fiji and are ready to help in any way. Only recently we were deeply moved by the spontaneous assistance they provided following the aftermath of the disastrous hurricane "Bebe" which struck Fiji in October last year.

We sincerely hope that Peace Corps volunteers will continue to come to Fiji for many years.

I look forward to the pleasure of meeting you at some future date.

With very best wishes.

Yours sincerely,

VISHNU D. PRASAD,
Charge d'Affaires, a.i.

[From the Korea Herald, Jan. 21, 1973]

OUR FOREIGN HELPERS (4)—PEACE CORPS FEEL AT HOME IN KOREA

(Foreigners, individually or through organizations, are helping the Koreans through various ways, materially, monetarily and spiritually. Aside from the humanitarian viewpoint, their assistances, no doubt, help further promote understanding and friendship between them and the local people. What kinds of work they do and what are they planning for the new year? The following is the fourth in a series of interview articles with the heads of foreign social and religious groups as well as "benevolent" individual persons.—Ed.)

(By Roy H. Whang)

They may speak Korean with funny accents, but the work done by 234 U.S. Peace Corps volunteers affects the lives of hundreds of thousands of Koreans every day.

Aside from the adjustments required in their lifestyles from the affluence of America to a still developing Korea, the positive experiences gained by the mostly young volunteers can be summed up in a few words.

"Compared to the students I had in the United States, the ones here are much more attentive and polite," said Gary Zellner, 24, of Williamstown, N.J., a graduate of Lycoming College in Williamport, Pa., and a retiring middle school English teacher in Chinju, Kyonsang Namdo.

Bob Kurcz, 25, of suburban Chicago and Holy Cross College at Worcester, Mass., said he valued most of all the experience he has gained living and working

in a "completely different culture" for the past year. He's an English teacher in a middle school in Chumunjin, Kangwon-do.

"I like the people," said Neal Landreville, 26, a University of Massachusetts graduate from Boston who is a tuberculosis control worker assigned to a health center in Kimje-gun, Cholla Pukto.

"I'm in the rice bowl of Korea," said Landreville, in Seoul for a few days to pick up another passport to replace the one he lost a few weeks ago. "Luckily for me, I am the only English speaker in the community so I have learned more Korean that I would have otherwise. During the day I help out in case management, often visiting patients' homes. They really enjoy that because it's evidence someone's concerned about them."

In the evenings? "Well, I like makkoli (Korean rice wine) quite a bit . . . ," he said.

All three volunteers were in Seoul recently and shared their experiences, and likes and dislikes about Korea with the Herald.

CONTROL OF TUBERCULOSIS

Ranging in age from 21 to 69, Corps members are placed strategically within each of the Republic's nine provinces and two special cities primarily teaching English or assisting the government in the control of tuberculosis, by far the greatest single communicable disease problem reported annually by the Economic Planning Board's Bureau of Statistics.

In 1971 there were 158,771 TB patients registered with the 92 "myun" health offices of the Ministry of Health and Social Affairs throughout the country, and 6,566 deaths attributed to TB, more deaths than any other single disease. TB inpatients in all types of hospitals totaled 571.057 and fully 1,883,000 persons received therapeutic medicine in 1971, while 2,741,000 persons were vaccinated in a nationwide preventive campaign.

By comparison, there were 9,914 cases of malaria reported in 1971 with no deaths and 3,146 cases of typhoid fever with 33 deaths.

"It's an enormous problem," said Edward P. Scott, 35, director of Korean operations since the spring of last year. "The volunteers help to attract attention to the local health center merely by their presence. Generally they're trying to help make the system work since it's not yet working with maximum efficiency," he explained.

There are 192 myun health centers in Korea, and one volunteer is assigned to each of 59 of them for TB control.

The bulk of the volunteers however, are English language teachers, 56 at the college level and 81 in the middle schools. According to Scott a given volunteer might have upwards of 200 students depending on the institution. In addition he or she more than likely would conduct workshops for high school English teachers as well as special classes for advanced students, Scott said.

"This year it's largely going to be a continuation of our basic programs," Scott said with just a few days of the new year behind him. "Normally we work in an institution the host government requests assistance for such as the teaching of English conversation or health work."

EXPANDED PHYSICAL EDUCATION

Additional volunteers have been requested from the Peace Corps to assist in the development of expanded physical education and athletic programs in the nation's schools.

As of last month there were 59 persons undergoing training in Taegu and Chooncheun, slated to replace volunteers whose 2 years of duty will be completed soon.

What, if anything, bothers volunteers during their experiences here?

On his way to the United States after a little more than 2 years of teaching capped by work in training new volunteers, Zellner said, "Things I found out later I didn't understand at first. For example, after I told my principal I was getting married (he married another volunteer in 1971), he urged me to change the date. Even after my mother and mother-in-law to-be had sent me their dates of arrival from the states, he kept telling me to set a later date. Finally, a group of my colleagues at the school got him to agree to my date.

"It was only after about 18 months that I really understood how to handle such situations. Anyone in authority here feels he must be in control at all

times. After I understood this, I made sure I gave my principal the chance to approve something I had already decided to do and everything was cool from then on," Zellner said.

FIRST YEAR OF DUTY

Kurcz, leaving for a month's vacation in the United States after his first year of duty, said he reacted differently because the authorities at this school allowed him more leeway.

"There's great deal of importance placed on appearances here," said Kurcz, who added he was supposed to stay at his school after classes were over until 6 p.m., but sometimes left the building for a couple of hours, only to return just to say he was going home.

"The only time the building was ever cleaned was when some big shot was about to visit," a mild criticism he uttered with a wry smile. "Paperwork and lots of it" was his strongest dislike. "At least one-third of a teacher's time during the day is spent doing paperwork," Kurcz estimated.

Bureaucracy was also prevalent in the work of the health centers, one of the lowest rungs of the government's highly remified structure, but according to Landreville it was the "unresponsiveness of the bureaucracy" that bothered him the most.

"Many people have to take two buses just to get to our center from a remote village, only to find the person responsible for their problem out of the office unnecessarily, or the whole place shut down due to some event far removed from their lives. After all, we're supposed to be helping people who are sick," he said.

"When I think about it though, the things that bother me the most are the same things I dislike about the United States, like the bureaucracy," he added.

CULTURAL EXPECTATION

In general, the problem of cultural expectations that differed from the assumptions about human behavior they had acquired from their upbringing in American was the greatest challenge faced by the volunteers.

"It's like being a baby all over again. You have to learn an entirely different world," Landreville said.

One of 62 countries that have asked for assistance from the Peace Corps, Korea had the third largest number of volunteers last year in all of Asia, behind India's 302 and Malaysia's 345.

"No host country receives any material or financial assistance from the Peace Corps," said Scott, a former Washington, D.C., attorney from Somers Point, N.J. in his fifth and final year with the corps.

"Our overall philosophy is nonpolitical and so we never express criticisms in a public or official way," Scott said, underscoring his 2 years of administrative duty in Korea, first as deputy, then as director last spring.

Scott, known to his fellow staff members as a fancier of Korean foods, said he was struck by the "persistence and uniqueness" of Korean culture, particularly in the area of personal relationships.

"My wife and I have very few Korean friends," he said, "but the ones we do have are very close. In the United States, you tend to have a lot more friends and do a lot more socializing, but it seems more superficial."

Seconding Scott, Program Officer Tim O'Brien, 27, of New York City said, "Actually I find myself enjoying the company of Koreans more often than I do that of Americans. I've been here nearly 5 years now and my wife is Korean, so I guess I feel more comfortable with Koreans. After all, I practically grew up here," said the Yale University graduate.

STATEMENTS MADE BY HOST COUNTRY NATIONALS ON THE PEACE CORPS IN TONGA

October 1972.

(1) "Without the Peace Corps, we would have no science department at Tonga High School."

NA'A FIEFIA,
Director of Education.
January 1972.

(2) "The Peace Corps Volunteers are so different from other *Palangis* (Europeans, Americans, and so forth). They give up their good life back home and come here to live in fales, raise chickens, and teach in our poor schools."

HONOURABLE VE'EHALA,
Governor of Ha'apai and Member of Parliament.
January 1972.

(3) "Whenever a Tongan worker tries to charge me too much for a little work, I tell him he should do it the Peace Corps way * * * FREE!"

HONOURABLE VE'EHALA,
Governor of Ha'apai and Member of Parliament.
January 1972.

(4) "No doubt, without the Peace Corps, our schools would be half staffed, our automobiles half running, and medical service would be half as effective."

SIONE KITE,
Assistant Secretary to Government.
January 1973.

(5) "Before the volunters came to Tonga, we thought you Americans cared only for money and cars."

MAILE TALAKAI, *Fisherman.*
October 12, 1972.

(6) "The Queen was asked if she considered the volunteers had made a worthwhile contribution to her kingdom. 'We need them,' she said, and went on to explain they had been very helpful."

QUEEN MATA'AHO.



RECIBE ESCUDO DEL PAIS.- El señor Joseph H. Therrien, ex-Director de Cuerpos de Paz, recibió un escudo de El Salvador, por su colaboración prestada al Ministerio de Agricultura en las actividades agropecuarias. En la foto, el señor Therrier, el Ministro de Agricultura, don Enrique Alvarez Córdova y al fondo el Ing. Francisco Lino Osegueda.

RECEIVES THE NATIONAL EMBLEM OF THE COUNTRY - Mr. Joseph H. Therrien, Peace Corps ex-Director, received the National Emblem of El Salvador for his collaboration with the Ministry of Agriculture in the agricultural and livestock activities. In the picture, Mr. Therrien, the Minister of Agriculture, don Enrique Alvares Córdova and at the back Engineer Francisco Lino Osegueda.

"EL MUNDO", January 13, 1973

San Salvador, El Salvador, C.A.

FAREWELL WORDS GIVEN BY THE MINISTER OF AGRICULTURE TO JOSEPH H. THERRIEN UPON DEPARTURE FROM POST

The purpose of this conference was to inform the agricultural sector and the public in general about the work that the Ministry (the Government of El Salvador through the MAG) is attempting to develop in the agricultural sector, but we have also wanted to take advantage of the fact that all the directors of the Ministry and of the autonomous institutions of these sectors are gathered together to express our gratitude—not only in the name of the Ministry but we believe we can also speak in the name of all the farmers and campesinos who have been directly assisted by this program—to the Peace Corps director in El Salvador, Mr. Joseph H. Therrien, who is leaving our country this week. With him is now the new Peace Corps director, Mr. Woods, and I thought this was a good opportunity to express our gratitude for the work the Peace Corps has developed in our country, assisting and cooperating with the Ministry of Agriculture and its agencies in our daily work. I repeat, Mr. Therrien, not only in our name but in that of the people who have directly received your assistance, we want to present you with a gift which we trust you will take with you to your country or to your next work post by which you will remember this piece of land, El Salvador, that will always remember you with esteem because of the way in which the Peace Corps, under your direction these past years, has worked with us. We would like to present you with this souvenir, our national emblem, on which is engraved: "To Joseph Therrien with all our gratitude—Ministry of Agriculture and Livestock, El Salvador, January 1973."

OFFICE OF THE DEPUTY PRIME MINISTER,
AND MINISTER OF FINANCE,
Kingston, Jamaica, December 12, 1972.

His Excellency Mr. VINCENT DE ROULET,
American Embassy,
Kingston.

MY DEAR AMBASSADOR: I would like to take this opportunity on behalf of the Government of Jamaica to express my appreciation to the members of the Peace Corps for the service they have given to Jamaica over the past years.

Before my appointment as Minister of Finance, I was aware of the activities of the Peace Corps in the Island and I recall, in particular, the work done by members of your organization in my constituency. In the 9 months since my government's election to office I have, as Minister responsible for the volunteer programme, been able to observe more closely the work of these volunteers throughout the Island. I note that there are Peace Corps volunteers employed on such disparate projects as Early Childhood Education and Industrial Arts.

Please convey to your Government, the thanks of the Government of Jamaica for the services rendered by the Peace Corps, and our hope that there will be many more years of continued cooperation.

May I extend to you best wishes for a happy Christmas.

Yours sincerely,

DAVID H. COORE,
Deputy Prime Minister and Minister of Finance.

TREND IN NUMBER OF APPLICANTS

Mr. COUGHLIN. How about applicants for the Peace Corps program? Are you getting more?

Mr. HESS. Our applicant population has been increasing since 1970. We are estimating that 28,000 to 30,000 applications will be received during this fiscal year—in contrast to a low in 1970 of about 19,000.

Mr. COUGHLIN. Your backlog is around 28,000 at the present time?

Mr. HESS. 28,000 applications which will be received during this year in response to the requests we have.

Mr. COUGHLIN. How about your backlog of projects which have been requested but not filled?

Mr. HESS. Mr. Craw can comment on this.

Mr. CRAW. I did not get the question.

Mr. COUGHLIN. Unfilled requests you have from foreign nations.

Mr. CRAW. In the current fiscal year we are attempting to put in a total of 5,029 trainees. That figure will be met on or before June 30. We expect to substantially meet our trainee goal, that is, the goal we set out to fulfill in the current fiscal year, but that will not necessarily mean we will have met all the requests. The probable number of requests which will remain unfilled will be slightly more than 1,000.

Mr. COUGHLIN. About 1,000 unfilled requests from foreign countries, from host nations, for volunteers?

Mr. CRAW. That is correct. We expect as a normal consequence of our operation that we will never fill 100 percent of all our requests but there is a backlog of requests we have not yet filled.

Mr. COUGHLIN. Can you give me an idea of what the major categories of job requests are?

Mr. HESS. Agriculture, professional services——

Mr. COUGHLIN. Such as what?

Mr. HESS. Doctors, nurses, architects, lawyers, skilled tradesmen, educators and science teachers. Then we have categories such as rural and urban development and business and public management. These categories are much smaller.

Mr. COUGHLIN. Thank you, Mr. Chairman. That is all I have.

Mr. PASSMAN. I should say there is a lot of misunderstanding about many programs. In the minds of many there is a serious doubt as to whether or not we were unwise for ever starting a foreign-aid program. As you know, when it started Greece and Turkey were involved in the first foreign-aid program. The real foreign-aid program started with the Marshall plan. We gave the European nations about $32 billion. They were so low on the totem pole, our leaders thought, that it would be much better to give them a grant than to make them a loan.

Now as we look back we find it would have been much better had it been a loan, even a concessional type loan. Instead of making Mickey Mouse currency out of our money, they would have been paying us back on the loan. So there is serious doubt as to whether we are on the plus side rather than the minus side of foreign-aid expenditures when we take all of this into account, such as the depreciated dollar. Since I came to Congress the dollar lost 63 percent of its purchasing power. We look at our public debt skyrocketing to $455 billion.

It distresses me when we read in the justification book on page 6 that—

> It is commonly agreed that the gap between rich and poor nations continues to widen despite two decades of concerted efforts by leading developed nations.
>
> The World Bank estimates that 1 billion people are still hungry and malnourished and that there are 100 million more adult illiterates today than there were 20 years ago.
>
> Some studies indicate that in those few developing countries which did experience significant growth of GNP per capita, the distribution of income often left a major portion of the population poorer at the end of the decade than at the beginning.

This would be justification actually for abolishing the entire foreign-aid grant-program and perhaps putting it on a loan basis.

I read this description of foreign aid, and this fits it very well—it is taking money from the poor people in a rich country and giving it to the rich people in a poor country. I don't think you can describe it any better. This statement pretty well backs that up.

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EFFECT OF PEACE CORPS SERVICE ON RETURNED VOLUNTEER

On page 8 of your justifications you state, "By the time they return to the United States, volunteers have usually grown in personal maturity and developed a broader view of the world."

I would think they should be mature before they leave.

Mr. HESS. They are, sir, but they have grown further in maturity by the time they return as a result of being exposed to the environment in which they lived.

AGE OF VOLUNTEERS TODAY

Mr. PASSMAN. What is the average age of your people?

Mr. HESS. Twenty-seven and a half years.

Mr. PASSMAN. Do you recruit older people now for Peace Corps?

Mr. HESS. We aggressively seek out those skills and experiences which are needed in countries to meet their requests.

Mr. PASSMAN. I would assume so.

Mr. HESS. We have a large number of older volunteers.

Mr. PASSMAN. My question is whether you are recruiting older people.

Mr. HESS. Yes, we are.

Mr. PASSMAN. What is the oldest Peace Corpsman you have?

Mr. HESS. The oldest Peace Corpsman today is 76 years old. More than 5 percent of the total number of volunteers are over 50 years of age.

IN-COUNTRY TRAINING

Mr. PASSMAN. On page 1–1 of the justifications you indicate that by the end of fiscal 1973 between 80 and 85 percent of all training will occur either in the country where the trainees will later serve or in a nearby country. Is that true?

Mr. HESS. That is true, yes.

Mr. PASSMAN. If you are going to send one to Vietnam you take him to Laos and train him?

Mr. HESS. I do not know the situation there in order to answer that question—as to where we would train if we were invited to Vietnam and should we accept. We might possibly train them in another Peace Corps country, such as Thailand.

Mr. PASSMAN. I am not too sure that makes sense. It occurred to me you would want to train this man in the United States. It seems he could better be trained here for the job. If you send him to Laos and say "Train him in that country" and send him to Vietnam, what advantage is it in handling it that way?

Mr. HESS. The advantages are several. One is that we will be training that person in the general environment in which he will be living over the next 2 years. That is a much different environment than here. It is different in language, culture, and different in the physical environment in which he will have to serve.

Another advantage is that we will be saving about $6½ million by training overseas rather than training here in the United States.

Mr. PASSMAN. If that is good for the Peace Corps why not carry that on into the State Department? If they are going to send their people abroad let us send them there, perhaps train them in Laos

for service in Vietnam. Perhaps we should handle our Ambassadors that way rather than bringing them before the committees to be quizzed as to what they know about the country they are going to. They do an in-depth study before they go before the committee.

This is a new concept, is it not?

Mr. HESS. Yes, sir, it is a new concept. We have tried it on a pilot basis in our Asia-Pacific Region and it has proven to be successful.

Mr. PASSMAN. Who said it proved to be successful?

Mr. HESS. The volunteers themselves, the host country nationals who felt the volunteers were better prepared to serve, and the Peace Corps staff members who have looked into this.

METHOD OF EVALUATING PROGRAMS

Mr. PASSMAN. What sort of evaluation system do you have in operation in the Peace Corps which would help determine whether the efforts of the Peace Corps are actually beneficial?

Mr. HESS. We have a number of programs. One is a survey program in which we are determining the results derived from a Peace Corps volunteer's service over a period of time. We are asking host countries to help us in making that evaluation because, after all, it is them the volunteers are serving, meeting their needs as they request volunteers. We are also doing some independent, third party evaluations, and will do some evaluations in-house.

HOST COUNTRY NATIONALS IN TRAINING

Mr. PASSMAN. Do we pay host country nationals to train Peace Corps volunteers?

Mr. HESS. When we employ them we pay their salaries.

Mr. PASSMAN. I would assume you would. The question is—do you pay host country nationals to train the Peace Corps volunteers?

Mr. HESS. Yes, and sometimes host country nationals are donated or placed on loan to the Peace Corps to help prepare the volunteer for his service in that country.

Mr. PASSMAN. How many nationals in host countries do you presently have training Peace Corpsmen on the payrolls?

Mr. HESS. 315 host country nationals are permanent employees of the Peace Corps at present.

Mr. PASSMAN. Where are they stationed?

Mr. HESS. In the 58 countries we serve. I would have to give you a breakdown.

Mr. PASSMAN. Rather than sending Joe Doakes to Puerto Rico to be trained you may send him down to, let us say, Thailand to be trained by a Thai national?

Mr. HESS. Yes; if he is going to serve in Thailand.

Mr. PASSMAN. I thought we were going to go there and teach the Thais how to do things. Now we are going to have the Thais teach him what to do after he gets there.

Mr. HESS. If I may explain that, Mr. Chairman.

Mr. PASSMAN. I wish you would.

Mr. HESS. We are teaching the volunteers the language of the country in which they are serving. We are also giving them a familiarity

with the customs of the country in which they are serving. And we are introducing them to the job they will be asked to do during the training period.

Mr. PASSMAN. They are supposed to go abroad and impart knowledge and not have knowledge imparted to them.

Mr. HESS. We are not training the skills; we are recruiting the skills. We are training volunteers in the tools they need to impart those skills, tools such as language.

BENEFIT FROM A PEACE CORPS PROJECT

Mr. PASSMAN. If you were asked to define an actual benefit—not mythical or imaginary—if you were asked to put your finger on real accomplishments of the Peace Corps, how could you do it?

Mr. HESS. We have attempted by making a survey recently. I would like to give you some illustrations.

Mr. PASSMAN. Give me just one.

Mr. HESS. During the last 2 years there were 10 volunteers in Thailand who established demonstration farms featuring the raising of cash crops and, as a result, helped numerous Thai farmers in developing a cash crop income, farmers who did not have an income before. That is one example.

Mr. PASSMAN. Where is that project in Thailand? How far out from Bangkok is that?

Mr. HESS. I would have to provide that for the record. It is in a remote area of Thailand.

Mr. PASSMAN. Did he have an income of $35 a year, $3.85, or what? You have not done anything yet but made a nice statement. What I want to know is where this place is. I want to know what they had before this man started this farm.

Mr. HESS. I will provide that for the record. I do not have the details with me.

Mr. PASSMAN. That will be fine.

[The information requested follows:]

Two statistically documented examples of Peace Corps accomplishments follow:

1. THAILAND

Volunteer Patrick Klein stationed in Bon Pai working with Khun Preechai introduced maize (corn). The farmer grew maize during the season that his land was normally fallow and producing no income—even though irrigation facilities were available year-round. The farmer produced 4 acres of maize with the following costs and returns:

Input costs per acre:	
Seed (6 kg at $1 per kg)	$6.00
Fertilizer:	
Nitrogen (60 kg at 22 cents per kg)	13.20
Phosphorous (40 kg at 26 cents per kg)	10.40
Potash (40 kg at 15 cents per kg)	6.00
Pesticides/Herbicies	13.00
Water costs	12.00
Labor costs (including; cultivation, seeding, weeding, spraying, irrigation and harvesting:	
(1) Contracted (30 days at $1 per day)	30.00
(2) Family (30 days at $1 per day)	30.00
Miscellaneous (transport, etc.)	5.00
Total	125.00

Income:

Shelled maize (2,200 kg at 8.9 cents kg)	$195.80
Fodder (18,000 kg at 4 cent per 100 kg)	7.20
Total	203.00
Profit per acre	$78.00
Profit for four acres	312.00

Three hundred-twelve dollars is equivalent to approximately Thai Bhat 6,240 which represents a substantial increase in the farmer's income and purchasing power. The farmers normal income is based on rice production. In a good year he is able to sell only a few hundred kilograms above his family's needs. This income would at best come to $200–$300.

2. INDIA

In 1971 volunteers stationed in Raichur district, Mysore State, introduced a new variety of hybrid cotton to the areas of the Tungabhadra project in the district. This variety was the first hybrid cotton developed in India and not only offered a potential increase in yield of 4 to 6 times the local varieties, but was a long staple variety commanding a higher price than the local short and medium staple varieties. The figures below provide a financial comparison of production costs and income per acre between the old varieties (Hampi and Laxmi) and Hybrid-4:

COST OF INPUTS

	Hampi/Laxmi	Hybrid-4
1. Seed:		
(a) 4 kg at 40 cents per kilogram	$1.60	
(b) 1 kg at $14.60 per kilogram		$14.60
2. Fertilizer:		
Nitrogen—100 kg at $24.90 per 100 kilograms	[1] 24.90	24.90
Phosphorous—60 kg at $27.66 per 100 kilograms	[1] 16.60	16.60
Potash—40 kg at $25 per 100 kilograms	[1] 10.00	10.00
3. Pesticides/herbicides	40.95	40.95
4. Water	1.00	1.00
5. Labor (cultivation, seeding, weeding, irrigation, harvesting):		
(a) Contracted	26.00	26.00
(b) Family	13.00	13.00
6. Miscellaneous (transport, interest on loans, etc.)	8.00	8.00
Total	142.05	155.05

[1] Local practices often involve halving fertilizer requirements reducing this cost by approximately $25.

Income from sale of cotton

Laxmi/Hampi:

Minimum yield 400 kg at $35.75/100 kg	$143.00
Average yield 700 kg at $35.75/100 kg	248.25
Maximum yield 1,200 kg at $35.75/100 kg	429.00

Profits range from $16 to $287 per acre.

Hybrid–4:

Minimum yield 800 kg at $45.50/100 kg	364.00
Average yield 1,200 kg at $45.50/100 kg	546.00
Maximum yield 2,000 kg at $45.50/100 kg	910.00

Profits range from $209 to $755 per acre.

Average profits were increased on a per acre basis from $106 using local varieties to $390 using the Hybrid-4 introduced by the volunteers, a differential of $284 per acre. During the first cotton season approximately 90 acres were planted resulting in an approximately increase of income for district farmers of $25,560. Largely due to the work done by the volunteers approximately 4,000 acres were planted in the district. From this an increased income of close to $1 million accrued to farmers in Raichur. All indications are that acreage and income will continue to increase substantially in the years to come.

Mr. PASSMAN. My experience has been that these people can teach us how to do some things. I went to Japan once to attend a Rotary Club meeting. Dr. Ochsner was the principal speaker, but I was also on

the program. I knew the Japanese liked rice. I just thought I would make a big hit with them to tell them what we knew about rice in Louisiana and what a bumper crop we got.

It came out that we get only one crop in Louisiana and they get three crops from the same land every year, so I found out they knew much more about raising rice in Japan than we knew in Louisiana. The same thing would be true in Taiwan. Those farmers there can teach the American farmer an awful lot of things. They are exporting to the United States pineapples, asparagus, sweetpotatoes, and they are able to get more yield per acre, at least two crops per year, and undersell the American farmers. That is why I would like to know the name of the farmer and where he is located. I want to see that project.

You are familiar with the fact that these people in Southeast Asia are tremendous truck farmers, are you not?

Mr. HESS. I understand that many of them are; yes, sir.

Mr. PASSMAN. I never did try to tell the Japanese any more that I knew more about raising rice than they did.

LIFESTYLE OF THE VOLUNTEER

On page 2–1 of the justifications you make the following statement: "In determining what amounts are appropriate for each volunteer, the overriding consideration is that the volunteer live at a level equivalent to that of his host country coworkers."

That is a nice statement, but an article in the Christian Science Monitor of August 26, 1972, which was written by a former Peace Corps volunteer, states the volunteers are by income alone set apart from the people they are trying to train. Are you familiar with that statement?

Mr. HESS. I am not familiar with that statement.

Mr. PASSMAN. Well, here it is. You might want to look that over, Mr. Director.

COST OF VOLUNTEER TRANSPORTATION

You indicate the average cost per trip has remained the same in fiscal 1973 and 1974. How are you able to keep these costs constant when air fares have increased?

Mr. HESS. We have been attempting to economize in a number of ways. We had found that through charters we can gain a considerable economy on air fares to take the volunteers from the United States to the countries where they will serve.

Mr. PASSMAN. Could it be if you had in mind sending 15 to Cambodia, for example, and by increasing the number to 30 you can charter a plane and carry them over cheaper? Would that be appropriate or am I exaggerating it?

Mr. HESS. I think you are exaggerating it. We would not do that.

Mr. PASSMAN. We would hope not but it would be rather tempting.

Mr. HESS. I would not be doing that.

Mr. PASSMAN. I would hope not, Mr. Director. In chartering planes you require a planeload, do you not?

Mr. HESS. But not necessarily for one country. We might send a planeload to a number of different countries. One plane might be stopping to drop volunteers off in the Philippines, Thailand, and Malaysia.

Mr. PASSMAN. Who pays the travel while the volunteers are on leave?

Mr. HESS. They must pay for that out of their allowances.

POLICY ON PURCHASE OF VEHICLES

Mr. PASSMAN. On page 29 you indicate approximately half of the vehicles of volunteers are purchased in the United States. Can you tell us where the other half of the vehicles are purchased?

Mr. HESS. There are a number of countries in which we serve where there are no American vehicles, where there are no mechanics available to service American vehicles, and where there are no spare parts for American vehicles. It is primarily in those countries that we are not using American vehicles.

Mr. PASSMAN. What countries are they?

Mr. HESS. There are a number in Africa, particularly——

Mr. PASSMAN. They are not manufacturing automobiles in Africa, are they?

Mr. HESS. No, they are not manufacturing any.

Mr. PASSMAN. Certainly the Peace Corpsmen will have to be using some imported automobiles?

Mr. HESS. Yes, sir.

Mr. PASSMAN. I would not know why you would not import American automobiles inasmuch as you will need spare parts. Whether manufactured in the United Kingdom or Japan it is still an imported automobile. I wish you would check into that. It causes me alarm to think that half of your vehicles are purchased from some country other than this country.

Mr. HESS. To keep a spare parts inventory and to import a mechanic who knows something about American vehicles is much more costly than to buy——

Mr. PASSMAN. Who maintains the automobiles they use? If you are in Africa and you buy them from Japan who keeps the automobiles up? Don't you have to have a mechanic or are they so foolproof they don't need mechanical service?

Mr. HESS. We use local mechanics trained for that particular vehicle.

Mr. PASSMAN. If he is trained to maintain a Japanese-manufactured vehicle couldn't he be trained to maintain an American-manufactured vehicle?

Mr. HESS. He could be but usually he is not. If there are no American vehicles in that country he would not be so trained.

Mr. PASSMAN. They are all imported. All the vehicles are imported: are they not?

Mr. HESS. Yes.

Mr. PASSMAN. If you can take a local man and train him to maintain a vehicle manufactured in Japan I don't know why you could not train him to maintain a vehicle manufactured in America. If you have to maintain spare parts for American vehicles you have to maintain spare parts for Japanese vehicles.

Mr. HESS. There would be the cost of training that man. We do not employ mechanics on our staff.

Mr. PASSMAN. Who trains him to maintain other vehicles, say from Japan, the United Kingdom, or France?

Mr. HESS. I don't know. We do not employ mechanics on our staff.

Mr. PASSMAN. Don't you think you should find out?

Mr. HESS. I can.

Mr. PASSMAN. After all, we are in trouble with our balance of payments. We are certainly in serious trouble with our trade balance.

I wonder whether you would get us some information showing how many foreign automobiles are involved and how many American automobiles are involved as well as the countries the automobiles are purchased from?

Mr. HESS. All right, sir.

[The information requested follows:]

VEHICLES AS OF DEC. 31, 1972

	Foreign	American [1]
AFRICA		
Botswana	3	1
Cameroon	7	0
Central African Republic	0	0
Chad	10	0
Dahomey	11	2
Ethiopia	24	0
Gambia	4	0
Ghana	16	0
Ivory Coast	20	1
Kenya	15	0
Lesotho	1	0
Liberia	38	6
Malawi	9	0
Mali	20	0
Mauritius	2	0
Niger	15	1
Senegal	6	10
Sierra Leone	26	0
Swaziland	1	2
Togo	5	6
Uganda	6	0
Upper Volta	7	3
Zaire	8	4
Total	254	36
LATIN AMERICA		
Brazil	0	52
British Honduras	5	1
Chile	0	9
Colombia	0	42
Costa Rica	4	4
Dominican Republic	2	8
East Caribbean	5	0
Ecuador	2	20
El Salvador	0	6
Guatemala	2	12
Honduras	1	15
Jamaica	2	3
Nicaragua	2	5
Paraguay	3	2
Peru	4	17
Uruguay	0	5
Venezuela	4	8
Total	36	209
NANEAP		
Afghanistan	0	20
Fiji	3	0
India	22	0
Iran	0	15
Korea	0	15
Malaysia	12	0
Micronesia	6	3
Morocco	2	17
Nepal	13	12
Philippines	0	23
Thailand	0	21
Tonga	2	1
Tunisia	3	4
West Samoa	2	0
Total	65	131

[1] These are American-make automobiles, though due to overseas subsidiaries of American multinational corporations, may not have been actually produced in the United States.

Note: Average cost of American vs. foreign vehicles: A. Average cost of American vehicles (purchased in-country)—$3,955; Average cost of American vehicles (Purchased in the United States and transported to overseas destination) $5,400 (Delivery usually takes 12 to 14 months). B. Average cost of foreign vehicles—$3,160.

Mr. PASSMAN. We might require legislation to preclude this. Perhaps with your cooperation a worthy amendment would be to limit it to U.S. vehicles. We are in very serious trouble, not only with our gold balance but our public debt, our balance of payments, our balance of trade, and so on. You know, every little bit helps.

You may also wish to have some comparison, even though it was not mentioned with regard to cost. That would also be a consideration.

Mr. HESS. I did mention cost, Mr. Chairman. That is a prime consideration of ours.

Mr. SHRIVER. You might put in the record what that cost differential is.

Mr. HESS. We certainly shall do that.

Mr. PASSMAN. Put in the cost of the American vehicle and that of the other make. Even if it is higher, though, it should be American. We cannot all just retire on pensions and depend entirely on what other countries manufacture. Certainly we are higher in just about everything because of our extravagance. We are just about out of the markets in many important areas.

POLICY ON VOLUNTEER FAMILIES

On page 212 you indicate that a policy decision has been made to accept families with only two or fewer children. Does this affect your ability to recruit experienced people?

Mr. HESS. It might. I do not really know. This policy is rather recent and is in the interest of economy.

ALLOWANCES PAID TO VOLUNTEER FAMILIES

Mr. PASSMAN. If you take a man, his wife, and two children abroad, do they get an additional subsidy for the children?

Mr. HESS. For dependent support, yes.

Mr. PASSMAN. How about the wife?

Mr. HESS. The wife is required to be a volunteer while she is serving overseas.

Mr. PASSMAN. That means in that particular family the dependent support per child is what?

Mr. HESS. It averages about $1,900 per year, as I recall.

Mr. PASSMAN. That would add to this, then?

Mr. HESS. Yes.

Mr. PASSMAN. Added to the average cost.

Mr. HESS. That is already added into the average cost.

Mr. LONG. I am not quite clear on what a volunteer family gets. The husband gets a certain sum, the wife gets a certain sum, and there is an allowance for the children?

Mr. HESS. Yes.

Mr. LONG. Can you tell me what it would be for a 4-person family?

Mr. HESS. Yes. I think it is about $3,000 per year.

Mr. LONG. This is in countries where family incomes run about $200?

Mr. HESS. It might be.

Mr. LONG. This is not exactly living with the natives, is it?

Mr. HESS. No, but what brings up the cost primarily is the cost of the children.

Mr. LONG. Does the wife get the same amount as the husband if she is a volunteer?

Mr. HESS. She gets $75-a-month readjustment allowance. The husband gets $125 a month. As far as the allowance for living——

Mr. LONG. That is $200 a month?

Mr. HESS. Yes. As far as allowance for living, it averages about $148 per month per volunteer.

Mr. LONG [continuing]. For living—in addition to that?

Mr. HESS. Yes, in addition to the readjustment allowance I noted before.

Mr. LONG. Now you are way over $3,000 a year. You are up to $2,400 with just the husband and wife together without counting the children and without the living allowance.

Mr. HESS. If I may provide that information for the record, sir. It is about three times as much as a single volunteer. That is what a husband, wife, and two children costs us.

Mr. LONG. How much does a single volunteer cost?

Mr. HESS. About $3,000.

Mr. LONG. A single one?

Mr. HESS. Yes, for direct support. That would include his living, leave and readjustment allowances.

Mr. LONG. So if they have a wife and two children that is $9,000?

Mr. HESS. In terms of the living allowance, leave allowance, and the readjustment allowance, yes, sir.

Mr. LONG. $9,000 a year?

Mr. HESS. Yes.

Mr. HOWE. A substantial portion of that is received after they return to this country. The readjustment allowance comes after they return.

Mr. LONG. You call that volunteering?

Mr. HESS. Well, in order——

Mr. SHRIVER. That is two volunteers.

Mr. LONG. That is right, but they bring this back to the United States with them, $9,000 a year after they get home. How many people in this country, a wife and husband, can come out with that kind of money all free and clear of their living expenses at the end of a certain period of time? It seems to me this is profitable for a family.

Mr. HESS. None of the families are making sufficient money to put away any savings. In addition——

Mr. LONG. They get this after they get back home?

Mr. HESS. The readjustment allowance is to tide them over until they find a job, until they find a home. They generally come out of the Peace Corps penniless. We therefore have a postservice readjustment allowance for every volunteer.

Mr. LONG. I wish you would tell us what the average sum of money is that these people get after they have gotten back to this country.

Mr. HESS. Yes; sir.

[The information requested follows:]

A family of four, after 2 full years of service, would receive the following readjustment allowance:

Head of household—$125 per month	$3,000
Spouse—$75 per month	1,800
Total	4,800

Notes: (1) Both allowances are subject to U.S. Federal income tax and insurance deductions. (2) To meet certain emergency needs, some volunteers are authorized to take funds from their readjustment allowance during their term of service.

Mr. PASSMAN. Let us think in terms of individuals in the service who get separation pay. This family would get $9,000 after they return to America.

Mr. HESS. No, sir. They would not get that amount.

Mr. PASSMAN. That is what we want to find out. How much do they get after their term is up and they are back in Washington? What do you give them?

Mr. HESS. About $4,800 before taxes for readjustment allowance per family for 2 year's worth of service.

Mr. PASSMAN. They could almost just take a year's leave on that, could they not? How does that compare to Private Jones, for example, who served in Vietnam or in Thailand and then comes home? What is his separation allowance?

Mr. HESS. I do not have that information with me, sir.

Mr. PASSMAN. Is it not just a very few hundred dollars?

Mr. HESS. I don't know what it is today, sir.

Mr. PASSMAN. I am talking only about this item. It costs $9,000 to maintain him. We are dealing now specifically with the amount they get after they return home.

Do you have any age limitation on these families when they go abroad?

Mr. HESS. We do not have an age limitation.

Mr. PASSMAN. So if they happen to have a little girl 2 years old and a 3-year-old boy, they are privileged to take them with them?

Mr. HESS. Yes.

Mr. PASSMAN. Is it not perfectly natural that this woman, who is a Peace Corps volunteer and receives pay for her service, will spend most of her time looking after those two babies?

Mr. HESS. She spends some of her time looking after the children, but also does some volunteer work in her off hours.

Mr. PASSMAN. Where would she get off hours with two babies?

Mr. HESS. During weekends, sir.

Mr. PASSMAN. Weekends?

Mr. HESS. Yes.

Mr. ROYBAL. Mr. Chairman, this colloquy is confusing.

Mr. PASSMAN. I yield to the gentleman.

Mr. ROYBAL. Let us just take case in point. I am a Peace Corps volunteer. You are sending me to the wilds of Peru. I have decided that I am going to be in the Peace Corps 2 years. You and I enter into such an agreement. I am ready to go to Peru. I get my training. Everything is in order and then I leave. I start getting paid for my time the moment my training starts, is that not correct?

Mr. HESS. That is correct.

Mr. ROYBAL. I also get paid for my time until the moment I arrive back in the United States; is that not correct?

Mr. HESS. Yes.

Mr. ROYBAL. From the time that I am first employed when I start my training to the time I come back, how much am I paid?

Mr. HESS. May I give this to you on a monthly basis?

Mr. ROYBAL. On any basis you want.

Mr. HESS. You would receive on the average $148 for subsistence, or living allowance.

Mr. ROYBAL. What does subsistence allowance mean?

Mr. HESS. Food, lodging, transportation, clothing, and incidentals.

In addition to a subsistence, or living allowance, you would accrue $18 a month for leave allowance.

Mr. ROYBAL. But that is not paid to me during the months that I spent overseas?

Mr. HESS. Yes. That $18 is paid overseas.

Mr. ROYBAL. Then I get $148 plus $18?

Mr. HESS. Yes. In addition, as a single volunteer you would accrue $75 a month here in the United States for readjustment allowance.

Mr. ROYBAL. Then I get $166 which includes your subsistence allowance plus $18. That is $166?

Mr. HESS. Yes.

Mr. ROYBAL. Then $75 for each month is set aside for me, which will be paid to me upon separation?

Mr. HESS. That's correct.

Mr. ROYBAL. That means, then, that in effect that individual gets $241 a month net?

Mr. HESS. Yes, except $75 of that is held here.

Mr. ROYBAL. I understand, but it is still dollars.

Mr. HESS. That is correct.

Mr. ROYBAL. So that it would cost you to send me to my particular destination for 2 years an average of $241 a month, including my transportation?

Mr. HESS. No, sir. The $241 is exclusive of international and in-country travel, but those would not be fixed, monthly direct costs.

Mr. ROYBAL. Then the $241 a month is direct payment that you would have for my services.

Mr. HESS. That is correct.

Mr. ROYBAL. The rest of the money then is applied to the overall cost of the Peace Corps volunteer?

Mr. HESS. Correct.

Mr. ROYBAL. In contrast, supposing that my wife and my two children would go with me for those 2 years. What would be the difference in the pay that I would get and the pay that my entire family would get?

Mr. HESS. You would get another $148 a month for subsistence, another $18 for leave allowance, and, if there are two children, there probably would be about another $158 per month added.

Mr. PASSMAN. Per child?

Mr. HESS. Yes, per child.

Mr. LONG. That is $158?

Mr. ROYBAL. That is another $316?

Mr. HESS. Yes.

Mr. ROYBAL. And what else?

Mr. HESS. If the children are of school age and attend school, part of this dependent support is educational allowance. But this is not in addition to the $316.

Mr. ROYBAL. Is that an amount that is paid to the volunteer or is it a transaction that takes place between the Peace Corps and the school?

Mr. HESS. It's the latter, between the Peace Corps and the school.

Mr. ROYBAL. Then the young man does not get that money. I want to know just the amount of money that I as a Peace Corps volunteer would get. Let us summarize, then.

Mr. SHRIVER. Wouldn't there be anything for the woman as a volunteer besides the subsistence?

Mr. HESS. In addition she would get a readjustment allowance.

Mr. LONG. Which is how much?

Mr. HESS. $75.

Mr. ROYBAL. A readjustment allowance similar to the one he would be getting?

Mr. HESS. No. The husband, as a head of household, would receive $125 a month.

Mr. ROYBAL. That means then, in recapitulating, that I as an individual would get $291 a month plus $241 a month for my wife; is that correct?

Mr. HESS. Yes.

Mr. ROYBAL. Plus an additional $75 a month for 24 months, which is the amount that is set aside for my wife's services to be paid to her upon separation?

Mr. HESS. No, I think that you have the $75 for the wife included in her $241.

Mr. ROYBAL. If I have it included in the $241——

Mr. LONG. I get $532 a month.

Mr. HESS. That is correct, but to get the full picture for a family of four, we have to go back and add about $316 a month for dependent support as we discussed before.

Mr. ROYBAL. Then it is in fact $848 a month?

Mr. HESS. Yes.

Mr. ROYBAL. Let us use, then, the figure of $848 a month. That is the full amount that is paid the individual and his wife, two children, but does not include the cost of transportation?

Mr. HESS. That is right.

Mr. ROYBAL. That is $848 a month. What is the average cost of transporting a family of four?

Mr. HESS. We used an average cost earlier this afternoon of about $620 for international travel.

Mr. ROYBAL. Per person?

Mr. HESS. Yes, I think that was it, one way.

Mr. ROYBAL. That is about $2,400 one way, $4,800 both ways?

Mr. HESS. Yes, approximately.

Mr. PASSMAN. About $5,000, though, for the round trip for the four?

Mr. HESS. $1,240 round trip.

Mr. PASSMAN. Per person?

Mr. HESS. Mr. Chairman, that would be per adult. The children's transportation is already included in our estimate of dependent support.

Mr. ROYBAL. I think I have a pretty good understanding now of the amounts of money that the Peace Corps will have to pay per family. Will you supply then for the record, take an example of a Peace Corps volunteer, his wife and two children, and tell just exactly what it is costing for 2 years. Break it down into salary, subsistence allowance, and transportation, so that we will have in a capsule just how much it is costing the Peace Corps for a family of four for 2 years.

[The information follows:]

VOLUNTEER COSTS PER 2-YEAR TOUR

	Single volunteer	Rate	Married, 2 volunteers, 2 dependents	Rate
I. Direct monthly payments:				
Living allowance	$3,545	$148 per volunteer per month.	$7,096	$296 per 2 volunteers per month.
Leave allowance	432	$18 per volunteer per month.	864	$32 per 2 volunteers per month.
Readjustment allowance[1]	1,800	$75 per volunteer per month.	4,800	$125 per head of household, $75 per spouse per month.
Direct monthly payments, subtotal.	5,780	$241 per volunteer per month.	12,760	$241 per spouse; $291 per head of household; $532 per 2 volunteers per month.
Dependent support[2]	(3)	Not available	7,600	$316 per 2 dependents per month.
Direct monthly payments, total.	5,780	$241 per volunteer per month.	20,360	$848 per 2 volunteers, 2 dependents per month.
II. Other costs:				
Settling-in allowance[4]	186	$186 per volunteer per tour.	372	$372 per 2 volunteers per tour.
In-country travel	164	$6.83 per volunteer per month.	328	$328 per 2 volunteers per month.
International travel	1,231	$611 over $620 back per volunteer per tour.	2,462	$2,462 per volunteer per tour.
III. Grand Total	7,361		23,522	

[1] Allowance held in U.S. payable upon termination. Volunteer heads of households receive $125 monthly. Single volunteers or volunteer spouses receive $75 monthly.
[2] Dependent support includes international and in-country travel, living expenses, and educational expenses (if applicable).
[3] Not available.
[4] Allowance paid once per 2-year tour.

Mr. PASSMAN. To have a complete record, you are dealing with only what the individual gets, but so far as the cost to the American taxpayer it is greater than that, because the average Peace Corps cost is higher, I believe. As it would apply to this individual, he receives certain benefits, does he not, from the host country while he is living there?

Mr. HESS. No, that is usually the total cost.

Mr. PASSMAN. You figure out what it is going to cost to maintain this Peace Corps family and those children there. The remainder of this goes into reserve. These people are just good, average Americans, aren't they, not the common laborers, not the airplane pilots. They are just average Americans?

Mr. HESS. Yes.

Mr. PASSMAN. A Peace Corps tour overseas is 2 years, is that correct?

Mr. HESS. Yes.

Mr. PASSMAN. Wouldn't you say it is quite commendable that Mr. and Mrs. Sam Jones, who have two children, in 24 months could have had this experience and could have built up a savings account of $4,800. It would be rather commendable, wouldn't it?

Mr. HESS. Yes.

Mr. PASSMAN. You have also to look at that part of it.

Mr. HESS. Yes.

Mr. PASSMAN. They come back here and they may get a job the following day or they may not, but in all probability if these people are as smart as you say they are, people will be grabbing them. There is a job for every person in America. Jobs are now going begging. So with this vast experience they have acquired, you said they become more

mature, so it looks to me like industry would be waiting with open arms.

It follows, nevertheless, when they do come back and this is all over, they have saved $4,800. It's theirs to put in the bank to look at, to check out, to spend; is that right?

Mr. HESS. It is for their use.

Mr. PASSMAN. That is right, for their use.

Mr. LONG. Would the Chairman yield?

Mr. PASSMAN. That is what they have saved in 2 years. I doubt if you would find very many American families under the same circumstances, you understand, that actually build up and have $4,800 saved.

I yield to the gentleman.

TAXATION ON VOLUNTEER ALLOWANCES

Mr. LONG. Is any of this income taxable?

Mr. HESS. All of it.

Mr. LONG. They pay income tax on all of it?

Mr. HESS. They certainly do, yes.

Mr. SHRIVER. Would you yield?

Mr. PASSMAN. I yield to you.

NO CHANGE IN READJUSTMENT ALLOWANCE SINCE 1961

Mr. SHRIVER. Has there been any change in the remuneration for subsistence in the period of time they have had the Peace Corps?

Mr. HESS. No, sir.

Mr. SHRIVER. It has been the same?

Mr. HESS. $75 since 1961. That has shrunk to $53 on today's dollar value.

Mr. SHRIVER. That was a point I wanted to bring out, because we have had inflation. It has affected the value of the dollar, as has been brought out by the Chairman several times.

Mr. LONG. Will the Chairman yield?

Mr. PASSMAN. Yes, when I make this point.

INSURANCE FOR VOLUNTEERS

Do you carry insurance on them when they are abroad?

Mr. HESS. No, we do not. They take out their own life insurance.

Mr. PASSMAN. They are privileged to buy insurance. They are under the regular Blue Cross-Blue Shield program?

Mr. HESS. Whatever insurance company they wish to use.

Mr. PASSMAN. They can use this Blue Cross-Blue Shield program covering Government employees as a special policy. Are they eligible for that coverage?

Mr. HESS. They are not eligible for this coverage. Peace Corps provides medical support for the volunteers.

Mr. PASSMAN. Mr. Long.

INCOME TAX ON VOLUNTEER ALLOWANCES

Mr. LONG. I just wanted to make sure that the income tax is paid on the entire amount. Is it paid on the subsistence amount?

Mr. HESS. Yes, it is. It is paid on the subsistence amount.

Mr. LONG. So the entire $532 a month they would pay an income tax on.

Mr. PASSMAN. I think you are mistaken. I happen to know tax laws too well for that. I wish you would check into that.

Mr. HESS. I know the volunteers are required to pay an income tax.

Mr. PASSMAN. A regular income tax?

Mr. HESS. I would like to provide for the record those items on which they have to pay.

Mr. LONG. Tell us what a typical income tax would be on that family. Is the social security tax deductible?

Mr. HESS. Yes, I think it is.

Mr. LONG. Let's make sure.

[The information follows:]

Volunteers must file a tax return while serving overseas. The amount of their tax for the year is based on their total taxable income for the year. Those elements of Peace Corps support which contribute to this total taxable income are: (1) readjustment allowance, (2) leave allowance, and (3) a portion of the living allowance—usually 35–45 percent—attributable to clothing, entertainment, transportation, domestic help, and incidental expenses.

Mr. PASSMAN. Let's make sure you don't leave the record open. This family of four gets a $3,000 exemption plus other deductions that any other American gets, if they are justified under the law. I don't care whether I am in Africa, New York, or Washington. If I am an American, whether I make $5,000 a year or $200,000, I am entitled to a flat $750 deduction, and that goes for each member of the family.

Is that correct? You ought to know that.

Mr. HESS. Yes, certainly.

Mr. PASSMAN. I am going to be very brief. On pages 3 and 4 you indicate the total number of domestic trips will increase by 100 in 1974. Would you please tell the committee the need for such a large increase.

Mr. HESS. Yes. It has to do with our attempt to do better screening of the volunteer before we invest in his going overseas to serve in the Peace Corps.

Mr. PASSMAN. Mr. Shriver.

Mr. SHRIVER. Thank you.

As you know, the first of three goals given the Peace Corps by Congress in 1961 was to help developing countries meet their needs for trained manpower.

ADDITIONAL EVALUATION OF PEACE CORPS ACCOMPLISHMENTS

You have furnished us with a brief survey of the Peace Corps accomplishments dated March 20, 1973. This contains some examples, good but isolated ones. I think we need more and better information on a country-to-country basis, with statistics, showing what the Peace Corps has or has not accomplished in places where they have been over a number of years. This could be in the form of a before-and-after report.

Could you supply that for the record?

Mr. HESS. Mr. Congressman, we are in the process of compiling a report. I will not be able to provide it to you within the next week but I will be happy to provide it at a future date. It is in the process of being compiled.

Mr. SHRIVER. When do you anticipate it will be completed?

Mr. HESS. Within this next month.

Mr. SHRIVER. Would you call that an evaluation?

Mr. HESS. It is a survey of accomplishments of Peace Corps volunteers in each of the countries throughout the world. It will not be, however, a before-and-after analysis.

Mr. SHRIVER. How long is that going to be?

Mr. HESS. How long will it take us to do? I think we will have it completed within this month.

MULTILATERAL VOLUNTEER PROJECTS

Mr. SHRIVER. There is a page that might be inserted, page 22, which describes several instances in which the Peace Corps has worked with other U.S. international development agencies on common projects. You might put in the record more about those projects and how the budgetary questions are resolved in these cases, if you would.

Mr. HESS. We will be happy to.

[The information follows:]

EXCERPTS FROM PAGES 21 AND 22 OF "A SURVEY OF PEACE CORPS ACCOMPLISHMENTS"

Peace Corps overseas staff coordinate their programs to the extent possible with other international or multinational development agencies operating in each host country. Volunteers are made available for sutiable jobs in projects supported by loans or grants from the large organizations like the Agency for International Development (AID), the World Bank and various United Nations affiliates like the World Health Organization.

There are no budgetary or accounting problems for the Peace Corps because the Peace Corps only makes some or all of the volunteers' time available to work on the joint project, all project expenses are borne by the sponsoring agencies.

The following are current examples of the Peace Corps cooperating with and supplementing the efforts of other international development agencies, United States and foreign. In addition to those projects mentioned, Peace Corps is also coordinating with Oxfam (Oxford Famine Relief Program), New Zealand's Volunteers in Service Abroad (VSA), and the International Secretariate for Volunteer Service (ISVS).

In Upper Volta and AID specialist on contract from the Communicable Disease Center in Atlanta supervises a program that has four Peace Corps volunteers working at the field level in an epidemiological project.

In the Dominican Republic, a dozen Peace Corps volunteers work in projects sponsored by the United Nations Food and Agricultural Organization, the Inter-American Development Bank, the Inter-American Foundation, the Pan American Foundation and the Organization of American States.

In Paraguay, 11 Peace Corps volunteers work at the middle levels of three AID-sponsored projects in education, credit cooperatives and livestock improvement. An additional 23 volunteers work in several agricultural projects supported by the Inter-American Development Bank.

In Korea, Peace Corps volunteers work jointly with the World Health Organization (in tuberculosis detection and treatment) and an International Labor Organization supported vocational education program.

In Western Samoa, volunteers comprise 50 percent of the faculty of the new Technical Trades Institute sponsored by the International Labor Organization, and work with the United Nations development program revising the science curriculum.

Mr. SHRIVER. I also serve on another subcommittee, the Labor—Health, Education, and Welfare Appropriations Subcommittee. We have been holding hearings for nearly 2 months on the hundreds of programs here at home which are administered by these departments. In many cases large cutbacks have been proposed. These have been proposed by the administration to avoid inflation or an increase in taxes. Many of them affect worthwhile and popular programs.

EFFECTS OF CUTBACKS IN FISCAL YEAR 1974 BUDGET

I am interested in what the effects would be if this subcommittee recommended cutbacks such as have been recommended by the Office of Management and Budget or by the departments in some of these domestic programs. If Congress makes further cuts of, say, $1 million, or $2 million, or $3 million in your budget, show for the record what the effects would be in each instance, and at what cutback point you would have to bring volunteers home. Would you put something in the record in this regard?

Mr. HESS. I will be happy to. It will be trainees and volunteers at certain levels.

Mr. SHRIVER. Put that in the record.

[The information follows:]

EFFECT OF REDUCTION BELOW $77 MILLION

$1 million—Reduce the approximate number of programs starting in June by 69. This will reduce the number of trainees starting in June by 483.

$2 million—Reduce the approximate number of programs starting in June by 108. This will reduce the number of trainees starting in June by 966.

$3 million—Reduce the approximate number of programs starting in June by 207. This will eliminate virtually all the programs and trainees starting in June.

$4 million—Eliminate all the programs starting in June and reduce the number of programs starting from January–May by 29. This will eliminate all June trainees and reduce the trainees starting from January–May by 188.

$7 million—Eliminate all the programs starting from January–June. This will eliminate approximately 2,200 trainees.

$8 million—Disinvite trainees starting training from September–December and/or bring trainees and volunteers home.

LEADTIME IN PROGRAMING PROCESS

Mr. SHRIVER. Will you explain the timing of your operations? There is, I know, a considerable amount of time between when you receive a request from a host country for a specific type of project and when you actually send volunteers into the field.

Mr. HESS. Yes.

Mr. SHRIVER. Will you tell us about that and how it affects your budget?

Mr. HESS. Yes. Usually projects are developed about 13 months in advance of the volunteers actually giving their service.

Mr. SHRIVER. Thirteen months?

Mr. HESS. Thirteen months in advance. We sit down with the country officials and attempt to develop the program, determine the job description, check out the worksite.

Then we have the documents sent here so we can take another look at them to assure that the program meets all of our quality standards.

Until we develop our recruiting program, actually do the recruiting, select the volunteer, train the volunteer, up to the day that he is ready to serve, it is about 13 months in total.

CHANGE IN SKILLS BEING RECRUITED

Mr. SHRIVER. You mentioned on page 8 the recruitment of volunteers with more specialized skills and experience. Would you, for the record, if necessary, show us the skill categories which you use in your recruitment, and how these categories have changed as your program direction has changed? I know it has changed considerably.

[The information follows:]

Since 1961, Peace Corps has recruited and placed volunteers that have been skilled in one of the following classifications: agriculture, skilled trades, professional service, education, and general.

Although the overall classifications have remained constant, the distribution for each has not changed over the years.

AS OF DEC. 31, BY PERCENT ONBOARD

	Agriculture	Skilled trades	Professional service	Education	General
1962 (4,350)	11	4	14	14	57
1963 (6,988)	6	3	15	17	59
1964 (9,391)	4	2	15	15	61
1965 (11,826)	4	3	20	33	40
1966 (13,999)	3	2	15	24	56
1967 (13,243)	2	1	12	26	59
1968 (12,164)	5	1	14	30	50
1969 (9,139)	6	1	14	32	47
1970 (8,381)	9	3	19	30	39
1971 (7,597)	11	5	18	28	39
1972 (6,809)	11	5	21	29	34

Mr. HESS. In agriculture, Mr. Congressman, there has been an increased demand of about 241 percent over 1969. In the area of skilled trades there has been an increase of about 270 percent. Professional skills demand for volunteers has increased about 65 percent, and the requests for a category that once was termed generalists, has decreased. So we have some significant challenges that we must meet through our recruitment by reason of requests for higher skilled and more experienced people in the Peace Corps.

Mr. SHRIVER. In answer to a previous question relative to these skills, you mentioned doctors.

Mr. HESS. Yes.

Mr. SHRIVER. How many doctors do you have?

Mr. HESS. I recall about 20 doctors, sir.

Mr. SHRIVER. Are they experienced doctors or just out of medical school?

Mr. HESS. I have not met all of them, but those whom I have met are experienced doctors who have given up private practice.

Mr. SHRIVER. Are they retired?

Mr. HESS. About half of these physicians are over 50 years of age.

Mr. SHRIVER. I know we have a shortage of doctors in this country. I hear about it in the other committee, where we are attempting to supply funds for medical education to fill the gap.

Mr. HESS. Yes. We are serving in some countries where there are no doctors, and where doctors are training health technicians, manpower

a little more senior than a nurse in terms of medical experience but less than a full-fledged doctor.

Mr. SHRIVER. Maybe we could use them here.

Mr. HESS. Yes.

Mr. SHRIVER. Lawyers. What do they do?

Mr. HESS. We have some lawyers who are helping to develop the cooperatives that are beginning to be formed in Latin America, as an example.

Mr. SHRIVER. How many lawyers do you have in the Peace Corps?

Mr. HESS. I will have to provide that for the record. There are very few lawyers in the Peace Corps.

[The information follows:]

LAWYERS

As of December 31, 1972, Peace Corps had 15 lawyers serving overseas as volunteers. None were over 35 years of age, indicating that none had been retired before joining the Peace Corps.

Mr. SHRIVER. Would they be retired?

Mr. HESS. They might be. I can check.

IN-COUNTRY TRAINING

Mr. SHRIVER. In your statement you talk about the great advantages of in-country training. You say it is more relevant, realistic, and also costs a third less than training in this country. This is something new that you just found out?

Mr. HESS. We have been testing this change over the past 3 years and, as of 2 years ago, our North Africa-Near East-and Pacific region has done its training completely in-country. This year we have begun to move into Africa and Latin America. We hope to have complete in-country training by the end of the next fiscal year.

COUNTRIES PEACE CORPS HAS LEFT

Mr. SHRIVER. I understand your record has improved regarding countries asking volunteers to leave. Maybe you covered this earlier. Which countries have asked our volunteers to leave during the past 3 or 4 years?

Mr. HESS. For the past 2 years, there has been no country that has asked us to leave. As a matter of fact, some countries that had once asked us to leave have now invited us back—Nigeria being one and Gabon another.

Mr. SHRIVER. Would you put in the record, over the history of the Peace Corps, the countries that have asked the agency to remove its people?

Mr. HESS. Yes.

Mr. ROYBAL. Would the gentleman yield?

Would you also provide for the record the reason that the Peace Corps was requested to leave?

Mr. HESS. Yes, I shall, Congressman.

Mr. ROYBAL. Because I know in many instances where the reason was quite valid, but not because of any failure of the Peace Corps.

Mr. HESS. My understanding is that in no case was it because of Peace Corps volunteer behavior.

Mr. ROYBAL. That is also my understanding.

Mr. LONG. I am sure the gentleman from Kansas would also like to know why they were invited back.

Mr. SHRIVER. To complete the table you might add that.

Mr. HESS. We will provide that, too.

Mr. LONG. It would be very interesting to know why they changed their minds.

Mr. ROUSH. Mr. Chairman, in this connection could we also know how many countries the Peace Corps has served?

Mr. LONG. At one time or another?

Mr. ROUSH. At one time or the other.

Mr. HESS. All right, sir.

Mr. SHRIVER. And what countries you are anticipating in the coming year to be serving. That may already be in the record.

Mr. HESS. Those that we are anticipating include——

Mr. SHRIVER. Put it in the record.

[The information follows:]

PEACE CORPS HOST COUNTRIES—FISCAL YEARS ENTERED, TERMINATED, REENTERED

	Entered	Terminated	Reentered	Net terminations
AFRICA				
Botswana	1967			
Cameroon	1963			
Central African Republic	1973			
Chad	1966			
Dahomey	1968			
Ethiopia	1963			
Gabon	1963	1968	(1)	1
Gambia	1968			
Ghana	1962			
Guinea	1964	1968, 1971	1969	1
Ivory Coast	1962			
Kenya	1965			
Lesotho	1968			
Liberia	1962			
Malawi (Nyasaland)	1963			
Mali	1970			
Mauritania	1967	1968	1972	
Mauritius	1970			
Niger	1962			
Nigeria	1962	1971	1973	
Senegal	1962			
Sierra Leone	1962			
Somali Republic	1962	1970		1
Swaziland	1969			
Tanzania (Tanganyika)	1962	1970		1
Togo	1962			
Uganda	1965	1973		1
Upper Volta	1967			
Zaire (Congo)	1971			
Total (29)		7	3	5

See footnote at end of table.

PEACE CORPS HOST COUNTRIES—FISCAL YEARS ENTERED, TERMINATED, REENTERED—Continued

	Entered	Terminated	Reentered	Net terminations
LATIN AMERICA				
Barbados	1965	(2)		
Bolivia	1962	1971		1
Brazil	1962			
British Honduras	1962			
Chile	1962			
Colombia	1962			
Costa Rica	1963			
Dominican Republic	1962			
Eastern Caribbean	1967			
Ecuador	1962			
El Salvador	1962			
Guatemala	1963			
Guyana	1967	1970		1
Honduras	1962			
Jamaica	1962			
Nicaragua	1969			
Panama	1963	1971		1
Paraguay	1967			
Peru	1962			
St. Lucia	1962	(2)		
Uruguay	1963			
Venezuela	1962			
Total (23)		3		3
NANEAP				
Afghanistan	1962			
Arabian Peninsula	(3)			
Ceylon	1962	1964, 1971	1968	1
Cyprus	1962	1964		1
Fiji	1968			
India	1962			
Indonesia	1963	1965		1
Iran	1962			
Libya	1966	1970		1
Malaysia	1962			
Malta	1971			
Micronesia	1967			
Morocco	1963			
Nepal	1962			
Pakistan	1962	1967		1
Philippines	1962			
Republic of Korea	1966			
Solomon Islands	1972			
South Pacific Comm	1972			
Thailand	1962			
Tonga	1967			
Tunisia	1962			
Turkey	1962	1972		1
Western Samoa	1967			
Total (24)		6	1	6
Grand total (75)		16	4	14

[1] Possible new countries in fiscal year 1974 are Gabon, Seychelles in Africa, and Cook Islands and Gilbert-Ellice Islands in the South Pacific.

[2] Barbados and St. Lucia were consolidated under the Peace Corps administrative unit of eastern Caribbean, which Peace Corps entered in fiscal year 1967. Also administered as a part of that same unit are Antiqua, Grenada, Montserrat, St. Kitts-Nevis, and St. Vincent.

[3] In late fiscal year 1973, Peace Corps will enter 3 countries, Bahrain, Oman, and Yemen, which for Peace Corps administrative purposes are considered Arabian Peninsula states.

Gabon

In December 1967, the Government of Gabon, while expressing its appreciation for the work of Peace Corps volunteers, requested that the program be terminated by January 1968.

Gabon officials explained the action was necessary due to budgetary deficiencies that made it impossible to continue its local cost contribution to the AID–peace Corps rural school construction project.

It was widely reported in the U.S. press that Gabon's decision was also influenced by French President Charles DeGaulle's policy to minimize U.S. influence and prestige in the former French colonies in Africa.

Since that time, however, new volunteers have been requested; and, the Peace Corps plans to reenter that country in fiscal year 1974.

GUINEA

On November 8, 1966, President Sekou Toure of Guinea ordered the expulsion of volunteers by November 15, 1966. At the same time, he complimented the Peace Corps for its contribution and sacrifice.

The President's action came as a culmination of a series of incidents that strained relations between Ghana and Guinea, one in which the United States was accused of complicity. That incident involved a Pan American Airways plane en route to Addis Ababa that was making a routing stopover in Accra. Ghanians boarded the plane in Accra and ordered the Guinean delegation to deplane and held some Guineans as hostages. The United States was blamed for the incident because Pan Am is an American company.

As a result, the U.S. Embassy residence was ransacked, Pan Am personnel were expelled, and eventually, private U.S. business interests, official U.S. personnel, and Peace Corps volunteers were expelled.

In June 1969, a highly trained group of Peace Corps volunteer mechanics was invited to Guinea. Those volunteers, however, were all withdrawn following the November 1970 invasion, which resulted in Guinea's retrenchment of all foreign technical assistance programs.

MAURITANIA

During the Arab-Israeli conflict, the Government of the Islamic Republic of Mauritania, in order to show solidarity with other Arab states, on June 7, 1967, broke diplomatic relations with the United States. The Peace Corps, and official U.S. personnel, were given 48 hours to leave the country.

Four years later, Mauritania requested a small volunteer poultry project. In September 1971, Peace Corps sent one volunteer who was followed by a second.

The country has requested more volunteers and Peace Corps officials expect more will be sent, but that the program there will remain small.

NIGERIA

In February 1969, it became clear that the Nigerian Government did not intend to request additional volunteers; and, by December 1970, all projects were phased out. Nigeria's decision reflected a policy of encouraging the replacement of foreign volunteer teachers by Nigerians. Underlying the decision were political considerations. Although official U.S. policy supported the Nigerian Government during their civil war with Biafra, the Nigerian Government reacted unfavorably to the widely publicized private efforts in the United States on the behalf of secessionist Biafra. Both the extended duration of the war and the fact that volunteers had been assigned to the Biafran region made the continuing existence of the Peace Corps in Nigeria difficult.

Two years later, however, in a calmer political environment, the Nigerian Government requested new volunteers. Presently, a small group of volunteers serve in Nigeria.

SOMALIA

On December 19, 1969, Foreign Secretary Omar Arteh announced the termination of volunteers in Somalia. The announcement came only 6 days after the Ministry of Education confirmed a request for 60 new volunteers.

In his official announcement, the Foreign Secretary said:

> While we are grateful to the U.S. Government for having sent us the Peace Corps to assist us in the education field, the Supreme Revolutionary Council has on the other hand decided that the Somalia Democratic Republic should dispense with the services. * * *

Peace Corps volunteers were replaced by Egyptian personnel, an action indicating that political considerations probably played a major role in the termination.

TANZANIA

Tanzanian President Nyerere often expressed to U.S. officials his appreciation for the contributions made by volunteers of ongoing Peace Corps projects. Following his public plea for "self-reliance" and "Africanization" however a, slow phaseout of the Peace Corps program was allowed to occur. The last volunteer completed his service there in October 1969.

Tanzanian officials did not request the Peace Corps program to leave that country, but simply did not request replacement groups. The Government was careful not to state any official reason for allowing the program to phaseout.

Uganda

By December 1972 all volunteers had been evacuated from Uganda due to Peace Corps' concern for the volunteers' safety.

Earlier, volunteers had been able to function despite political unrest; but the outbreak of hostilities between Uganda and Tanzania made it virtually impossible to continue.

Bolivia

In June 1971, Bolivian President Juan Torres asked that volunteers be withdrawn. The action came following a Leftist propaganda campaign to discredit the Peace Corps as a form of "American imperialism." Widely-circulated unsubstantiated press reports, such as an accusation that volunteers were CIA agents, brought great pressure on the Bolivian Government to take action against the Peace Corps. The Government's official announcement of the program's termination, however, acknowledged the contributions made by volunteers and thanked Peace Corps for its work there.

In August 1971, the government of Juan Torres was deposed by a coup d'etat. The new President, Hugo Baneer, has stated his interest in reestablishing a program in Bolivia, but to date, no official action has been taken.

Guyana

Peace Corps programs in Guyana were phased out in June 1971, as a result of an October 1970 decision by the increasingly nationalist government to terminate all foreign volunteer programs. This action was consistent with the Government's policies on foreign aid, national self-sufficiency and nonalinement; and, it was not seen as an unfavorable reflection upon Peace Corps' activity there. In fact, a number of Peace Corps Volunteers were requested to remain there on Guyana Government contracts in order to continue the work they had been doing as volunteers.

Panama

On February 12, 1971, Foreign Minister Juan Antonio Tack announced that all Peace Corps Volunteers would be terminated from Panamanian service in 90 days. Following that announcement Tack stated:

"Panama has decided to end the Peace Corps agreement with the United States because we can enlist Panamanian and international volunteers to do the same things as the Peace Corps is doing."

In Panama, Peace Corps had encouraged development of a national volunteer program and utilization of international volunteer groups. Therefore, Peace Corps viewed the new directions in volunteer service, announced on February 12, 1971, as an indication that the Peace Corps had been successful in its developmental efforts in Panama.

The Foreign Minister and other government officials made it clear that the request to withdraw Peace Corps Volunteers from Panama was in no way related to any existing anti-American feelings. Peace Corps has continued to cooperate with the Government of Panama by supplying volunteers for international volunteer team efforts that have been working there since February 1971.

Ceylon

The Peace Corps suspended operations in Ceylon in June 1964, when the only group of volunteers to serve there completed its 2 years of service. AID assistance to Ceylon was suspended a year earlier, pursuant to the terms of section 620(e) of the Foreign Assistance Act of 1961, as amended.

The volunteers had served as science, home economics and physical education teachers. The Government of Ceylon, under the Prime Ministership of Mrs. Bandaranaike, did not ask for replacements for these Volunteers nor for additional groups. The Ceylon-Peace Corps agreement, however, was not canceled, allowing Ceylon to invite the Peace Corps to reopen its program at a future date without the necessity of negotiating a new agreement.

In early 1967, under the Prime Ministership of Dudley Senanayake, the Government of Ceylon, under this original agreement, requested new Peace Corps Volunteers to work in food production and rural community development. These Volunteers arrived in Ceylon on December 12, 1967.

In 1970, Mrs. Bandaranaike again became Prime Minister, and the Peace Corps'

role in Ceylon was terminated under circumstances similar to those of 1964. The services of other volunteer and developmental groups, such as the Asia Foundation, were terminated by Mrs. Bandaranaike's Government at the same time.

Cyprus

When hostilities broke out in Cyprus, it became impossible for volunteers to continue their work. Accordingly, Peace Corps withdrew all volunteers in February 1964, a few months before their normal termination. By the time hostilities stopped, their tour was up, and they were not reassigned.

The Peace Corps has considered the possibility of assigning new volunteer contingents to Cyprus, but in view of the unstable political situation has taken no new initiative in this area.

Indonesia

The Indonesian program was terminated in May 1965, as a result of a mutual decision by Peace Corps and Indonesian authorities. Peace Corps initiated the action when it became impossible for volunteers to operate effectively in the face of the Indonesian Communist Party's campaign to harass and embarrass the Peace Corps and, if possible, force its withdrawal.

By April 1965, it had become apparent that the Indonesian Government could no longer guarantee the volunteers' safety. In the subsequent May withdrawal, there was mutual agreement that both Peace Corps and the Government of Indonesia would look forward to the time when volunteers could resume their service. The withdrawal was conducted on a friendly basis and was without incident.

Libya

In September 1969, a coup d'etat overthrew the monarchy of Libya; and, in October 1969, the Peace Corps program was terminated.

The volunteers, in the areas of education and health, had been a vital part of that country's development plans. As late as August 1969, Peace Corps officials and the Ministries of Health and Industries had planned to discuss new programs.

After the coup d'etat, however, the new Prime Minister criticized the instruction of foreign languages in primary schools; and, after dismissal of the first new Minister of Education, the elementary English program was abolished. A surplus of English teachers resulted.

With neither condemnation nor thanks, the Government of Libya terminated the Peace Corps program. Teachers for the French Voluntary Service, who had taught in junior high schools, were similarly affected, as were numbers of Jordanian and Palestinian English teachers.

Pakistan

Peace Corps closed out its operations in Pakistan in June 1967, when the last group of volunteers completed its tour of service. The first volunteer group arrived in Pakistan in 1961. That group and subsequent ones served in rural public works, agriculture, and education programs.

By September 1966, it was apparent that the Government of Pakistan did not intend to request additional volunteers. Pakistan said the reason for the phaseout was related to its then rising needs for highly skilled technicians and specialists, as opposed to the more generally skilled manpower Peace Corps was providing at that time. The deterioration of U.S.-Pakistan relations, following the 1965 India-Pakistan war and a reduction in U.S. economic and military assistance to Pakistan, might have been a major factor in the phaseout.

Turkey

In the spring of 1970, Peace Corps began to close down its program in Turkey. The last volunteer terminated his service in August 1971.

This action was taken following the civil unrest and student strikes of 1970. Although unrelated to Peace Corps projects, these activities so disrupted the volunteers' working environment that fulfillment of project goals became impossible.

The Turkish Government, however, never requested withdrawal of volunteers, nor was the Peace Corps-Turkey agreement ever cancelled. In fact, the Turkish Government has requested volunteers for a forestry recreation project

to be directed by the Ministry of Forestry. Peace Corps and Turkish officials have decided, however, to postpone assigning volunteers until the existing Peace Corps-Turkey agreement is amended to reflect a program that is under host country rather than Peace Corps staff supervision. The proposed amendment has been reviewed by the Turkish Foreign Ministry and is currently pending review by the Turkish Council of Ministers.

ACTIVITIES OF RETURNED VOLUNTEERS

Mr. LONG. I understand your statement says that the Peace Corps program benefits the United States because about three-quarters of the returning volunteers go to work in social programs. Can you give us some data on the various categories of social programs in which they are working, the ones who have come back?

Mr. HESS. The social program definition is quite broad. About 10 percent go into State government, 10 percent into the Federal Government, 5 percent are serving in local government, about 35 percent are serving as teachers. Then there are about 6 percent who are serving in the field of health and 5 percent in other general social services.

Mr. LONG. If the gentleman will bear with me a little while longer, why is this particularly a great advantage? Do we have great problems getting people to get into social programs in this country? I understand there is a plethora of teachers and all sorts of people want to work for the Government. Is this a cut above people who want to work?

Mr. HESS. Yes, I think the Peace Corps volunteer is a very elite American.

Mr. LONG. You think people who work in social programs are elite Americans?

Mr. HESS. Mr. Congressmn, I think, that by virtue of 2 years' experience in a different culture, living under hardship conditions in an environment where they do not have the materialistic trappings that we have here, such a person is probably a much more valuable person as a result of his Peace Corps experience, and he is sought after usually more often than others.

Mr. LONG. Do you have any empirical evidence that this is so, aside from your assumption that he must be quite a good fellow or he wouldn't have gone into the Peace Corps?

Mr. HESS. Only what I read in surveys that have been taken and what I have heard from others who have been talking to me about the value of a returned Peace Corps volunteer in their employ.

REDUCTION IN STAFF SALARIES

Mr. SHRIVER. You say there will be a reduction in your average staff salaries.

Mr. HESS. Yes.

Mr. SHRIVER. Will you tell us more about those reductions?

Mr. HESS. As a result of the 5-year rule, we have quite a bit of turnover in our staff. As people leave, it is my desire to bring in staff members who are going to be willing to serve at a lesser salary than their predecessors, and try to do that wherever possible. I hope that as a result there will be a lower average salary than what we have had in the past. Again, this is another one of the many ways we are attempting to economize.

PROGRAMS IN NEW COUNTRIES

Mr. SHRIVER. I see you are considering new programs in four or five countries or territories, including the Seychelles in the Indian Ocean.

Mr. HESS. Yes.

Mr. SHRIVER. This is a former British colony, I believe?

Mr. HESS. That is right.

Mr. SHRIVER. Tell us what you would do there.

Mr. HESS. At the present time we are entertaining a very small request for volunteers, two or three, who would go over in an educational program to help train teachers. I don't have the specifics of that because we haven't received the request from the country. It is under negotiation at the present time in the field.

Mr. SHRIVER. So you don't know who is going to go?

Mr. HESS. No. I know it is in the field of education but I don't know the specifics.

Mr. SHRIVER. What can you accomplish with the expenditure of $3,000 for the South Pacific Commission in New Caledonia?

Mr. HESS. We have a volunteer, I think one volunteer, established out there. I understand he is working in the field of marine life, fisheries, food for people.

Mr. SHRIVER. That will be in addition to the money we were talking about a little while ago?

Mr. HESS. Yes. He is a volunteer. That is the cost of one volunteer.

Mr. SHRIVER. Is this over the figure discussed a little while ago?

Mr. MARKHAM. $3,000 was the cost of the volunteer, but we were talking about the family before, which ran up that cost; $3,000 is the average.

Mr. SHRIVER. He is going to be working in marine life and fisheries?

Mr. HESS. Yes, I think he is.

SIZE OF PROGRAM IN BRAZIL

Mr. SHRIVER. I notice that your program in Brazil is getting rather large, with 462 volunteers scheduled for that country in fiscal 1974.

Mr. HESS. That is the request, Mr. Congressman. Right now there are about 350 volunteers there.

Mr. SHRIVER. Is there a point at which the program would have too high a profile, even in countries as large as Brazil?

Mr. HESS. I think that is true in some small countries but for Brazil the request for 462, if they are good, viable programs, is not too high a profile, because they are going to be working in the out regions of Brazil where there are few or no foreigners, as I understand it.

MULTILATERAL VOLUNTEER PROGRAMS

Mr. SHRIVER. I want to ask some questions about the multilateral grants. In 1972 it amounted to $100,000, and you are asking for $350,000.

Mr. HESS. Mr. Congressman, there was a planned expenditure for about $250,000 in that year, but because of the reduction in the Peace Corps program that was made we had to back out of our full commitment to that program, so only a $100,000 expenditure was made.

Mr. SHRIVER. I am just looking at the material which you supplied.

Mr. HESS. Yes. For 1974 we are contemplating a cost of about $350,000.

Mr. SHRIVER. That was the estimate you had for 1973?

Mr. HESS. That is correct.

Mr. SHRIVER. Would you tell us what that is?

Mr. HESS. About $100,000 is for the international secretariat for volunteer services. This is to help them in the development of other multinational volunteer programs. About $200,000 will be allocated to the United Nations volunteer program, helping to foster it. The remaining $50,000 will go to several smaller multilateral projects.

Mr. SHRIVER. We are already contributing through this committee and other committees a considerable amount to the United Nations. This is just another spigot of contributions to the United Nations and multilateral organizations where we have no control.

Mr. HESS. This particular fund, Mr. Congressman, for the United Nations will supply moneys to those developing countries that would like to participate in an international volunteer program. It is set aside specifically for them. The U.S. share is 12 percent of that cost.

Mr. SHRIVER. How was the 12-percent figure determined?

Mr. HESS. It is an allocation that is made among the contributing nations to the United Nations Volunteer Fund. They wanted, as you can probably imagine, much more from the United States, but I believe this is a fair contribution.

Mr. SHRIVER. When did we start this program?

Mr. HESS. The United Nations volunteer program was begun in 1971, and I think our first contribution may have been in that fiscal year. I will have to check.

Mr. SHRIVER. That was $100,000 for 1972?

Mr. HESS. In 1972 we did not contribute because of the financial problem.

Mr. SHRIVER. Why do you put it in your book where it says fiscal year 1972 actual, $100,000 on page 312?

Mr. HESS. That was for the International Secretariat for Volunteer Services, which is distinct entity from the United Nations program.

Mr. SHRIVER. It isn't very clear. What is this organization you are talking about now?

Mr. HESS. The ISVS is a private organization headquartered in Geneva. Its purpose is to help develop volunteer programs throughout the world, provide technical assistance, provide a clearinghouse to help them design recruiting programs, and help provide program development for volunteers.

Mr. SHRIVER. And we became involved in that by virtue of an agreement with the other countries, or was there congressional action? How did we arrive at that?

Mr. HESS. I think it is title III of our legislation which authorizes and encourages us to help in the formation of other volunteer programs throughout the world. The figure of $350,000 is a relatively small one, but an important amount to help foster volunteers. I might add that, as a result of the Peace Corps, there are more than 20 countries today that now have international volunteer programs, with something like 28,000 volunteers serving throughout the world.

Mr. SHRIVER. Would you put a table into the record showing those

other countries and their contributions to these two multilateral organizations?

Mr. HESS. I will be happy to.

[The information follows:]

UNITED NATIONS VOLUNTEERS—FISCAL YEAR 1973

Administrative costs	$409,600
Volunteer in-country costs: 150 volunteers × $3,600	540,000
Out-of-country cost	250,000
Total budget	1,199,600

Items 1 and 2 above are funded by the UNDP. One hundred twenty-six countries contributed (in 1971) and the United States pays approximately 34 percent of the total.

Item 3 is the special voluntary fund to which the Peace Corps contributes under the authority of title III of the Peace Corps Act. The purpose of this fund is to finance "external" costs (all volunteer costs that are not incurred in the host country) for the developing countries and thereby make their participation in the program possible.

	1972 proposed	1973 proposed
	Figures given in in U.S. dollars	
Canada	$20,200	
Cyprus	240	
Denmark	10,000	
Federal Republic of Germany	22,050	
Holy See	1,500	
India	10,000	
Iran	10,000	$20,000
Iraq	1,000	
Israel	1,000	
Laos	1,000	
Lebanon	1,000	
Morocco	5,000	
Pakistan	1,100	
Switzerland	10,000	
Togo	700	
Turkey	2,500	
United States	200,000	200,000
Private organizations	4,215	
	301,505	220,000

NATIONALITIES OF UN VOLUNTEERS

Australia	1	Japan	4
Austria	5	Kenya	1
Argentina	3	Netherlands	2
Belgium	1	New Zealand	2
Chile	5	Norway	1
Denmark	3	Pakistan	3
Egypt	3	Philippines	10
Finland	2	Portugal	1
Germany	3	Sweden	2
Ghana	1	Switzerland	2
India	2	United Kingdom	10
Iran	3	United States	11
Ireland	7		
Israel	1	Total volunteers	93
Italy	4		

INTERNATIONAL SECRETARIAT FOR VOLUNTEER SERVICES

Country	Proposed budgetary contribution	Secunded personnel	Special contributions
Argentina	(1)	1	
Chile	$7,040		
Denmark	15,400		
Finland	2,970		
France	30,250	1	$20,000
Federal Republic of Germany	30,250	1	107,000
Deutsche mark			(300,000)
India	6,325		
Israel	8,800		
Ivory Coast	7,084		
Liberia	3,080		
Netherlands	23,100	1	
Norway	7,084		
Panama	5,500		
Philippines	6,325		
Sweden	11,715		
Switzerland	15,950		
Thailand	1,540		
United States	67,424	[2]1	[2]99,000
Total budget	249,837	5	247,000

[1] Provides ISVS with office and personnel in Buenos Aires.
[2] Peace Corps contribution has been in the form of 1 Foreign Service officer secunded to ISVS and a special contribution made under the authority granted in title III of the Peace Corps Act.

Mr. SHRIVER. That is all I have.

Mr. LONG. Mr. Yates will proceed under the 5-minute rule, which usually ranges anywhere from 5 to 25 minutes.

Mr. YATES. It is usually the 5 with Mr. Yates.

Let me say that I am very much interested in the Peace Corps. I was one of those who filed its bill originally. I was one of the cosponsors setting up the Peace Corps and, by and large, to one who has been on the outside, I find that their record is a very good one. I don't know whether members of the committee who have supervised your budget and followed your activities more closely share that opinion, but they have given you the money you wanted.

PEACE CORPS RELATIONSHIP WITH WHITE HOUSE

Tell me what your relationship is with the White House. I notice that Mr. Nixon, in commenting on amnesty, indicated that he thought that some volunteers shouldn't be allowed to have a junket for 2 years in the Peace Corps.

Mr. HOWE. Congressman Conte already covered that and we are submitting for the record a clarification which the White House put out 2 days later indicating, sir, that he was referring to his feeling that service in the Peace Corps was not a penalty which was consistent with his idea to that which should be paid for breaking the law, and indicating that he did realize the dedicated service that Peace Corps volunteers provided. We obviously wish that that clarification has as wide a distribution as the initial comment did.

Mr. YATES. It would have been nice if the clarification had been issued the day before the statement.

Mr. LONG. It was the friends of the Peace Corps, wasn't it, that equated service in the Peace Corps with the penintentiary?

Mr. HOWE. I am not familiar with that, sir.

Mr. LONG. You know, instead of putting them in jail when they come back, put them in the Peace Corps. I think it was your friends.

There is an old saying you have to watch out for your friends. Your enemies are easy to deal with.

ADEQUACY OF PRESENT BUDGET REQUESTS

Mr. YATES. Have you already gone into the question as to whether the funds you have requested are adequate for you to carry out your purposes.

Mr. HESS. $77 million is going to be adequate to carry on the purposes of the Peace Corps.

Mr. YATES. Is it a restricted program?

Mr. HESS. It is a restricted program. We will not be able to meet all of the requests that we have been asked to meet by host countries. I might say I am delighted that the vote on the House floor the other day on our authorization, which was, I think, 299 to 72, also indicated that $77 million is a worthy amount.

NUMBER OF VOLUNTEERS

Mr. YATES. What will be the number of your authorized Peace Corps members, the volunteers so-called?

Mr. HESS. Volunteers and trainees, about 7,300.

Mr. YATES. And what was the maximum at any time?

Mr. HESS. About 15,000 volunteers and trainees.

Mr. YATES. You are down to about half that number now.

Mr. HESS. That is correct, but a higher quality program, I might add.

Mr. YATES. In what sense?

Mr. HESS. Higher quality in that we have, I think, a better selection program. We are getting more experienced, more skilled volunteers. We have much better programing, much more definite jobs, and better training.

Mr. YATES. Are the volunteers usually older today?

Mr. HESS. Yes, they are. Today they average 27½ years old, in comparison to 1966 when they averaged about 23½ years old.

Mr. YATES. Is the number of countries in which your volunteers will serve restricted as well?

Mr. HESS. We are in 58 countries. We have requests from five countries that are outstanding, and there are a few other countries that are talking to us in terms of their desire for Peace Corps. Of course, we are going to be limited in terms of the numbers we can serve.

Mr. YATES. Have you put into the record testimonials from countries in which the Peace Corps serves?

Mr. HESS. Yes, we have.

Mr. YATES. That is all, Mr. Chairman.

Mr. LONG. I think you are one of the rare phenomena. I don't think you have even taken 5 minutes. I have always felt you were one of the most valuable members of any of the appropriations committees.

Mr. YATES. I hope he gets that in the record.

RETURNED VOLUNTEERS IN SOCIAL PROGRAMS

Mr. LONG. Are you arguing that these volunteers who work in social programs in the United States got their commitment from the Peace Corps experience, and if so, what evidence do you have of this, that they wouldn't have gone into these things anyway?

Mr. HESS. Mr. Congressman, at the conclusion of the Peace Corps volunteer's service after 2 years, we ask him to complete a questionnaire. We want to know a little bit about what the volunteer felt about his Peace Corps service. One of the questions is whether or not as a result of this service he has had any changes regarding his career plans. We are finding, as a result of that, that many volunteers have changed their minds and want to continue working in social programs. They thought they only wanted to for a period of time, but many of them now feel that it is of great value to be serving mankind.

Mr. LONG. I am just wondering whether you are arguing that or not, and I appreciate the value of social programs like education and so on. After all, I was a university professor for about 25 years, but I wonder if you can really argue that this is of a higher order of service than working in agriculture or a factory?

Mr. HESS. No, I wouldn't suggest that it was necessarily. I think it is a very important sector that Americans have not really accorded enough high prestige to, in terms of its importance to development of the human being.

Mr. LONG. You may be right.

Mr. HESS. I include education and health in that, sir.

Mr. LONG. How about politics?

Mr. HESS. That is a necessary ingredient.

ACTION OFFICE OF POLICY AND PROGRAM DEVELOPMENT

Mr. LONG. What is the total staff of the Office of Policy and Program Development in ACTION?

Mr. HOWE. The number of authorized slots is 21. I believe the total staff actually on board is 18.

Mr. LONG. What portion of the staff works on Peace Corps related matters?

Mr. HESS. I understand about seven devote some of their time to Peace Corps matters.

Mr. LONG. It has been argued that much of the Washington ACTION staff that deals with policy and programs in Peace Corps spends a good deal of its time second-guessing decisions which should logically be made only in the field. What is your response to this? Have you heard that claim made before?

Mr. HESS. No, I have not heard that claim, but as one who has served in the Peace Corps overseas, I am very much concerned that Washington doesn't do too much second-guessing about what goes on in the field.

Mr. LONG. I think second guessing is something that is pretty hard to stop anywhere. The cost of sending a Peace Corpsman and his family is a pretty expensive thing, as I can see, at least compared with incomes and earnings in the poor or underdeveloped or developing countries. Aren't there an awful lot of unemployed intellectuals, educated, trained people in those countries who need jobs desperately? Isn't this a great problem in developing countries. People get awfully good educations and then can't get employment. I wonder why it wouldn't be cheaper to get this work done hiring the people in the underdeveloped countries?

GOOD EXAMPLE SET BY VOLUNTEERS

Mr. HESS. I am increasingly finding that answers to this question, which I often pose in my travels, take the following course: that many people are educated, but that they have theoretical knowledge and don't know how to apply that knowledge to the task at hand; working side by side with a volunteer he begins to acquire a capability to make that practical application.

Also, many people who do become educated immediately want to put on the white shirt and move into the Caapital City to do a desk job, because they feel that they should be accorded a greater prestige in their social standing as a result of their education.

Mr. LONG. You mean they would turn down a good job out in the field?

Mr. HESS. Many wish to be in the Capital City, I understand.

Mr. LONG. That is a different statement. Would they turn down one of these jobs that paid anything like this? They don't pay much in those countries?

Mr. HESS. That is correct, I don't think they are getting adequate compensation. That is a very large factor, but also I think you must understand that the conditions in the bush, as it were, are rather grave. Seeing a Peace Corps volunteer, an American, who is willing to take off his tie, roll up his shirt sleeves, and go out in the bush to live 2 years under conditions of hardship to apply his skill and his knowledge often goes a long way to changing some of the attitudes on the part of the people in that country. This is a great concern of their governments, and one of the many reasons why Peace Corps volunteers are desired.

Mr. LONG. I appreciate that. You are really trying to show them the American way of life and of thinking, and you feel that it does exist in those countries. We have to send it over there to those countries at considerable cost so they can see it, but I am wondering how valuable a lesson this is to them when they see Americans living over there vastly better than they are living. I think you will have to admit, we all have to admit, we give them incomes that are many, many times what well educated people get in those countries. I am wondering just how valuable a lesson that is. Don't they always say, "If I were a rich American I could do these things too. Why should I assume that this is such a valuable lesson to me, in view of the fact that I am never going to get paid what he is getting paid? I am never going to live as well as he is going to live." Do you follow me?

Mr. HESS. I do follow you, but I don't want to mislead you into thinking that the volunteers are living largely better than their hosts. They are living at the level of their peers with whom they work. They are living under conditions of hardship. They are having to buy their food, which most host country people are able to raise.

Mr. LONG. Their incomes are vastly above those in the host country. They are supposed to be out working with humble campesinos. In fact I have seen them in the hills outside of Lima, if I recall correctly, helping them build houses and so on. You know darn well their incomes are way above those people. They have got to be.

Mr. HESS. Yes, but, Mr. Long, I think you must also consider that the volunteer must acquire lodging. He is not given lodging free, and

lodging is very expensive, and comes out of the volunteer's subsistence allowance.

Second, the volunteer usually does not raise his own food which many of the host country people do. He must buy it. Food is very expensive.

Mr. LONG. What kind of a valuable lesson is it for these people for a volunteer to go out there and show them how to do things and then he (the volunteer) doesn't even do what they are doing, namely raising his own food?

Mr. HESS. Because I think if he were to spend his time raising food rather than imparting his skill or knowledge, then we would be wasting everybody's time.

Mr. LONG. You are really assuming he is quite an elite guy but I would think a large part of this moral lesson you are trying to get over to them would be lost. If I were one of these campesinos, one of these poor urban dwellers, and I saw this Peace Corps type who didn't have his own little garden and had all this free time, I am not sure I would get a great moral lesson out of it.

Mr. HESS. I don't wish at all to imply there is any free time on the part of the volunteer. The volunteer's time is spent not only on the job but also doing secondary activities off the job.

Mr. LONG. Don't those people feel pretty envious of somebody who doesn't have to have a garden? I would. I want to tell you any garden I have ever raised was backbreaking work. I hated every minute of it and I envied anybody who had enough income that he didn't have to do that backbreaking labor.

Mr. HESS. That is exactly why the Peace Corps volunteer is invited, to impart a knowledge, a skill, so they will not have to be raising a garden.

Mr. LONG. I thought before you were telling us that it was more than that. It was the idea of the American taking off his coat, working in his shirt sleeves among them, showing that Americans are not snobs and that they have a lot of knowledge, that you don't have to have a desk job and all that. Yet we are not doing quite that. We are setting him apart. He does live quite specially, maybe not as well as the local AID director, who frequently sometimes lives as well as a maharajah. As a matter of fact I can remember the AID director in India living in maharajah row in New Delhi right with the princes. I don't think you can deny that your average Peace Corps person is far better off economically than the average member of the developing host country. He gets all kinds of medical care. He gets an allowance for education for his children.

Mr. HOWE. Mr. Congressman, that certainly has to be true, but the Peace Corps volunteers I have visited in particular countries, with $148 to survive on in a month are often living in places with dirt floors, with no indoor plumbing, at a level substantially comparable to a vast number of people in that village. They are looked upon as being amazing

individuals who come from this fantastically rich country across the sea to come live in that sort of surrounding, and it does serve as an example.

Mr. LONG. I have seen them, and in a way you are right but in a way you are not right. I have seen them living in quite humble circumstances. It is true in a way they are living like the people but in other ways they are not and everybody knows it. They know it and all the people around them know it. They have all kinds of privileges and things that are not available to the people among whom they are living.

Mr. HOWE. But the difference between where the people there realize the volunteers came from and the style in which they are now living I think accomplishes or gives the feeling that Mr. Hess has tried to describe. When they go out in the bush where, by and large, people from developed countries have been reluctant to go, and all of a sudden they see an American living out there, it becomes much more difficult for their own civil servants, if you will, to say, "No, I really don't want that remote assignment." An American Peace Corps volunteer is living out there and doing that sort of work in a much different style of living than they know he is used to.

Mr. LONG. Of course, I have no way of knowing how many people in those countries who have some education, turn down jobs that are reasonably well paid out in the bush. If you can show me some figures on that, my guess is that the average guy who has gotten a college education in Nigeria or some place like that is not offered anything that would even come close to what a Peace Corps volunteer gets paid to go out and do work far from Nairobi.

Mr. HOWE. We would probably have great difficulty in providing figures of that sort but constantly as officials from the foreign governments come in, this is one of the things they emphasize to us, one of the good effects that Peace Corps volunteers have on people in their country and that they want to have stimulated among their people.

Mr. HESS. I think also it might help if I would draw on an illustration from Korea, as an example. Each volunteer has a coworker, and those that were teaching in Korea were getting no more and sometimes less than their counterpart, their teacher. In the health centers where we were working in Korea, they were attempting to attract doctors to work in those health centers out in the remote areas, and in those few cases where they succeeded, our volunteers were receiving considerably less than the doctors who were serving in those health centers.

HOST COUNTRY CONTRIBUTIONS

Mr. LONG. Can you give us some data for the record on the size of host contributions, by country in absolute amount and percentage.

[The information follows:]

HOST COUNTRY CONTRIBUTIONS BY COUNTRY

[Fiscal years]

	1971	1972	1973 estimate	1974 estimate	Percent of 1973 Peace Corps direct budget [1]
Africa:					
Botswana	$27,701	$56,360	$15,000	$17,300	3.0
Cameroon	12,022	13,091	16,000	18,500	2.0
Central African Republic [2]					
Chad	19,299	10,326	26,000	30,000	5.0
Dahomey	3,173	3,828	5,000	5,800	1.0
Ethiopia	89,032	35,540	100,000	115,400	4.0
Gambia	2,400	5,826	9,000	10,400	3.0
Ghana	203,598	111,519	384,000	443,100	25.0
Ivory Coast	73,295	53,761	452,000	521,600	39.0
Kenya	256,579	307,943	261,000	301,200	14.0
Lesotho	9,154	21,423	39,500	45,600	18.0
Liberia		4,516	134,000	154,000	5.0
Malawi	9,402	4,611	3,100	3,600	1.0
Mali	513	2,031	7,500	8,700	2.0
Mauritius	20,427	12,359	13,500	15,600	11.0
Niger	37,948	31,686	33,300	38,400	2.0
Nigeria [3]					
Senegal	40,899	104,793	25,000	28,800	3.0
Sierra Leone	100,865	91,892	93,300	107,700	7.0
Swaziland	38,447	47,663	75,000	86,600	13.0
Togo	17,000	12,000	20,000	23,100	2.0
Uganda [4]	179,206	202,229	196,000		34.0
Upper Volta	21,914	46,091	6,700	7,700	.4
Zaire	3,770		261,200	301,400	15.0
Total, Africa region	1,166,644	1,179,488	2,176,000	2,284,500	
Latin America:					
Bolivia [5]	8,468				
Brazil	39,871	66,641	67,700	71,001	2.0
British Honduras	802	1,274	4,400	4,600	2.0
Chile	22,621	5,310	7,900	8,300	2.0
Colombia	55,698	3,241	28,400	29,800	2.0
Costa Rica	9,011	4,810	23,400	24,600	4.0
Dominican Republic	1,500		15,700	16,500	3.0
Eastern Caribbean	27,010	22,879	12,000	12,600	2.0
Ecuador	331	2,501	6,000	6,300	.5
El Salvador	10,294	432	18,900	19,800	5.0
Guatemala	9,200	3,200	14,400	15,100	2.0
Honduras	11,572	9,371	4,500	4,700	.6
Jamaica	15,738	8,864	7,300	7,700	.7
Nicaragua	10,905	17,133	14,700	15,400	3.0
Panama [5]	5,390				
Paraguay	12,000	7,500	2,200	2,300	.5
Peru	1,923	120	100	100	.09
Uruguay	2,140	2,101			
Venezuela	38,470	76,342	40,800	42,500	3.0
Total, Latin America region	282,944	231,719	268,400	281,400	
North Africa, Near East, Asia, and Pacific:					
Afghanistan	6,543	9,051	181,300	190,400	13.0
Arabian Peninsula [6]					
Fiji	65,327	65,990	58,200	61,100	10.0
India	134,814	97,640	2,600	2,700	.5
Iran	70,663	65,140	56,100	58,900	4.0
Korea	126,464	179,826	81,200	85,300	4.0
Malaysia	98,944	88,720	60,100	63,100	3.0
Malta					
Micronesia		1,075	5,700	6,000	.3
Morocco	16,769	19,082	97,000	101,900	8.0
Nepal	12,576	6,275	14,400	15,100	1.0
Philippines	19,308	23,146	11,000	11,600	1.0
Solomon Islands		12,913			
South Pacific Commission					
Thailand	65,175	127,124	107,400	112,800	6.0
Tonga	4,788	4,848	6,600	6,900	2.0
Tunisia	117,808	123,134	80,000	84,000	9.0
Western Samoa	15,327	28,969	22,700	23,600	6.0
Total, North Africa, Near East, Asia, and Pacific	754,506	852,933	784,300	823,400	
Total contributions	2,204,094	2,264,140	3,228,800	3,389,300	

[1] This column indicates the ratio of the fiscal year 1973 host country contribution to the fiscal year 1973 Peace Corps direct budget in each country.
[2] New country in fiscal year 1973.
[3] Peace Corps returned to Nigeria in fiscal year 1973.
[4] Peace Corps program withdrawn in September of fiscal year 1973.
[5] Peace Corps discontinued program in fiscal year 1972.
[6] Peace Corps program in the Arabian Peninsula (Oman, Yemen, Bahrain) began in fiscal year 1973.

Mr. LONG. And those countries where the Peace Corps has English-language teaching programs, could you provide host country contributions for the English programs compared to host country contributions for all other Peace Corps programs.

[The information follows:]

The following table lists those countries in which the percent of Peace Corps volunteers teaching English is greater than 40 percent and applies that percent to the respective host country contributions for fiscal year 1973 to arrive at a comparison of contributions for English programs versus contributions for all other programs.

Country	Percent volunteers teaching English	Estimated contribution English program	Estimated contribution other programs	Total contributions
Korea	77	$62,524	$18,676	$81,200
Ivory Coast	69	311,880	140,120	452,000
Thailand	63	67,662	39,738	107,400
Senegal	62	15,500	9,500	25,000
Chad	58	15,080	10,920	26,000
Tunisia	50	40,000	40,000	80,000
Afghanistan	48	87,024	94,276	181,300
Morocco	41	39,770	57,230	97,000

Mr. LONG. That is all I have. Mr. Roush.

Mr. ROUSH. Mr. Chairman, I am very new on this subcommittee and I made up my mind I had better sit and listen this year. I must confess it has been a rather frustrating afternoon to sit here and listen. I wasn't sure whether the practices of the committee would permit interruption, so I have remained rather silent but I think I should let the record reflect my advocacy of the Peace Corps. I think it has fulfilled its purpose and intent, and I congratulate these men, Mr. Howe and Mr. Hess, on their presentation and on the work they are doing to improve the Peace Corps.

I am sorry to say that this is included in a general appropriations bill, and my vote on the general appropriations bill will certainly not reflect my feeling toward the Peace Corps, but as with all agencies of the Government, I think it is the responsibility of the committe to inquire very diligently into the conduct of its affairs and the effectiveness of its program. I think perhaps this subcommittee has done that to a limited extent. I would hope that next year I might be more active.

CLARIFICATION OF VEHICLE PURCHASE POLICY

There are a couple of things that I felt were not clarified. I would like to go back to a point which has bothered me, and that concerns the automobiles and their purchase. I understand, Mr. Hess, that what you were telling the committee was that there are certain countries of the world where a certain automobile is used. They don't happen to be American, and it is easier for you to use that same automobile in that country than it is for you to take an American automobile in and provide trained mechanics, replacement parts and what have you. I am thinking perhaps of the Congo where I think the British vehicle is called the Land Rover which is used, and used quite extensively. Perhaps there are no automobiles of American make there. Is that the reason that this is happening?

Mr. HESS. That is correct.

THE PEACE CORPS NAME

Mr. ROUSH. I also would take exception to my chairman's criticism of the use of the name "Peace Corps."

Mr. LONG. By the chairman, you don't mean the acting chairman?

Mr. ROUSH. I don't mean the acting chairman.

Certainly the name seems very appropriate to me. You are engaged in only peaceful endeavors, are you not?

Mr. HESS. Yes, sir.

Mr. ROUSH. And the purpose is to promote peace and understanding among the people of the world, is it not?

Mr. HESS Yes.

Mr. ROUSH. Have you had any suggestion on the part of anyone that this name should be changed, other than that you have heard here this afternoon?

Mr. HESS. No; I have not had any suggestion and I would resist changing a good name that has been established, I think, with great credibility to do America a great deal of honor. Peace Corps, as a result of its good work to date, I guess you might know, is now given credit in Webster's dictionary of last year as a term, and I think, that we owe a great credit to Peace Corps volunteers for making that name a very honored one.

CONTRIBUTION OF PEACE CORPS TO AMERICA'S RELATIONS OVERSEAS

Mr. ROUSH. Would you care to comment on the contributions that the Peace Corps has made to our relations with foreign nations in general?

Mr. HESS. Yes. It is very difficult to give any precise definition, but I can say that wherever I travel, whether I meet a humble man on the street or a prime minister or a principal of a school, that the Peace Corps is a name that is held in a very, very cherished way. I think it is not, necessarily, that they are giving credit only to that volunteer, but I think that they are giving credit to Americans, Americans who are still willing to support an organization whereby people are giving 2 years of their life to serve under hardship conditions. It is a recognition that in America we are still willing to share and help others who are in great need, people who really want to become self-sufficient in this world, self-reliant.

I have heard the general theme echoed time after time, and I think it is representative of the fact that we are continuing to get a large number of requests for Peace Corps volunteers. I know that during the period when we had to cut back on the Peace Corps in 1972, we lost significant credibility. Around the world ambassadors reported to the Secretary of State, "Please, Peace Corps counts. Peace Corps is of great value in terms of American relationships with that country." I think that the other reason why perhaps we are held in even greater esteem than most foreign assistance programs, it is not only because we are a country-to-country program, but because we are a person-to-person program.

I think it is through the Peace Corps that we are giving still another image of America, and an important one, of who we Americans are, people who care.

Mr. ROUSH. Thank you.

There is one other comment, Mr. Chairman, that I wanted to toss in. As I recall on the first day of our hearings this year before the

full committee, either Mr. Shultz or Mr. Ash testified that it costs on the average of $10,000 in pay and allowances alone to maintain one soldier, just in pay and allowances, without all of the supporting costs that are involved, and it does seem to me that the $2,844 figure for pay and allowances for a Peace Corpsman is well spent compared to this.

Now a rather mundane question. Do you have any people assigned to or working on the White House staff?

Mr. HESS. Not in the Peace Corps.

ACTION PERSONNEL ON WHITE HOUSE STAFF

Mr. ROUSH. Does ACTION have any person or persons assigned to and working on the White House staff?

Mr. HOWE. Not directly. We have one person on a detail to the Cost of Living Council. We have one person detailed to the Office of Economic Opportunity, both of which are involved in the Executive Office, but we do not have anybody detailed or on an assignment to the White House.

Mr. ROUSH. Have you had any in the past year?

Mr. HOWE. Not that I am aware of, sir.

Mr. ROUSH. You would know?

Mr. HOWE. I would certainly hope I would know, but I must admit some things happen that I don't know about, but I do not believe we have, no.

Mr. ROUSH. That is all.

Mr. SHRIVER. Would the gentleman yield? I want to add a word of commendation to you, Mr. Hess, and those who have testified here today. This is the ninth annual presentation of the Peace Corps I have heard, and this presentation has been the best or among the best. I think you are to be commended and congratulated for the presentation and the sincerity that the people here apparently have, and for the changes you have brought about.

Mr. LONG. I want to thank you, Mr. Hess, for coming here. I don't think we gain anything, of course, by telling you what a great bunch of people you are. You already know that. We do try to investigate, and I have never known a program in which there wasn't something wrong that couldn't be improved. That is the spirit in which I offered my questions.

I will say this. I have been to many countries and I have seen a great many programs going, and it always seemed to me that the Peace Corps was at least doing something that you could find, put your finger on, and see with your eyes. That is more than I can say for a lot of AID. In country after country you couldn't find anything that AID employees were doing except living in beautiful homes with three or four servants and that kind of thing.

They fill you full of board room statistics, but they couldn't really show you anything. The things that I was able to get out and see with my own eyes and which remain most vividly in my recollection were projects in which Peace Corps people were involved. They always seemed to me to be very fine dedicated people, and I was very proud they were Americans.

Mr. HESS. Thank you, for the volunteers.

Mr. LONG. I think that is all we have. This meeting stands adjourned until tomorrow at 1 o'clock.

THURSDAY, APRIL 5, 1973.

INTER-AMERICAN DEVELOPMENT BANK

WITNESSES

JOHN M. HENNESSY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT
REUBEN STERNFELD, ALTERNATE U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK
SIDNEY WEINTRAUB, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL FINANCE AND DEVELOPMENT, DEPARTMENT OF STATE
MICHAEL BRADFIELD, ASSISTANT GENERAL COUNSEL, TREASURY DEPARTMENT
RICHARD LARSEN, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS FINANCE, TREASURY DEPARTMENT
E. J. FINKEL, DIRECTOR, MULTILATERAL INSTITUTIONS PROGRAMS, TREASURY DEPARTMENT

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
1. Investment in International Bank for Reconstruction and Development		62,340	
2. Investment in International Development Association	38,020	347,427	347,427
3. Investment in Inter-American Development Bank	104,286	445,464	527,143
4. Investment in Asian Development Bank		8,571	100,000
Total program costs, funded—obligations (object class 33.0)	142,306	863,802	974,570
Financing:			
Unobligated balance available, start of year:			
Appropriation	−1,398,520	−2,650,274	−2,524,852
Authority to spend public debt receipts	−5,715,000	−5,715,000	−5,715,000
Unobligated balance available, end of year:			
Appropriation	2,650,274	2,524,852	2,663,662
Authority to spend public debt receipts	5,715,000	5,715,000	5,715,000
Budget authority	1,394,060	738,380	1,113,380
Budget authority:			
Appropriation	1,934,810	738,380	1,113,380
Transferred to other accounts	−540,750		
Appropriation (adjusted)	1,394,060	738,380	1,113,380
Relation of obligations to outlays:			
Obligations incurred, net	142,306	863,802	974,570
Obligated balance, start of year	1,820,438	1,687,050	2,130,552
Obligated balance, end of year	−1,687,050	−2,130,552	−2,565,808
Outlays	275,694	420,300	539,314

Mr. PASSMAN. The committee will come to order.

We shall continue our examination on the budget requests for foreign aid. This afternoon we shall consider the request for funds for the Inter-American Development Bank. We have as witnesses the Honorable John M. Hennessy, Assistant Secretary for International Af-

fairs, Treasury, and the Honorable Reuben Sternfeld, Alternate U.S. Executive Director, Inter-American Development Bank.

I assume, gentlemen, that each of you would have a statement to make to the committee.

Mr. HENNESSY. That is correct, sir.

GENERAL STATEMENT OF JOHN M. HENNESSY

Mr. HENNESSEY. Mr. Chairman, I am here to testify in favor of President Nixon's fiscal year 1974 appropriations requests totaling $1.2 billion for the international lending institutions. I strongly urge that you and the Congress act promptly and appropriate the full amounts which are being requested.

My statement addresses itself to the broader issues of U.S. Government participation in the three institutions since the Secretary of the Treasury has overall responsibility. The U.S. representative in each of the institutions will accompany me and provide you with a statement on the details of operations in his respective Bank.

Before providing information on the specific requests and on the operations of the institutions, I would like to raise two questions which I consider important. The first question is: Why should you appropriate this amount of money for foreign economic assistance at a time of extreme budgetary stringency and serious balance of payments and trade problems? This year, the entire budget has been subject to extremely close scrutiny in terms of our national interests. The President has assigned a high priority to the international lending institutions and for very practical reasons.

It is clear, Mr. Chairman, that our first concern must be for the welfare of the American people. It is also clear that as a nation, we have important interests in the developing areas of the world. Their economic growth and stability are in actual fact important to us for economic as well as general foreign policy reasons. Our economic interdependence with all nations, and particularly these, has grown. Today, they provide raw materials, as well as manufactured and semimanufactured products, which are vital to the continued vitality and noninflationary expansion of our economy. A little known fact is that year after year the United States has had a positive trade balance with the less developed countries; including a modest surplus last year, when we ran a large deficit with the rest of the world. The truth is that they are good customers and it is in our interest to provide them with capital to expand their economies and their ability to repay us.

A second little known fact is that we get one-third of our raw materials imports from them now and this figure is almost certain to rise in the future. A third little known fact is the importance of how our investment earnings in these countries contribute to our balance of payments and to the welfare of our people. The United States has close to $25 billion in private direct investments in less developed countries. Multilateral bank loans help provide the infrastructure to

complement the activity of private capital. In 1972, the gross inflow of repatriated earnings, dividends, interest, royalties, and fees to this country from LDC's amounted to $4.2 billion. Even after allowing for investment outflows, there was still a net inflow of $2.6 billion.

Aside from the economic reasons I have just outlined, there is a second reason why the foreign assistance that we provide through the international lending institutions has been included in this year's budget. Such assistance fits in with the President's overall foreign policy. Moreover, we are now engaged in negotiations on important matters of international trade and international finance. The question of development assistance is closely related to and even interdependent with these other two questions. All three are legs of the same stool. We cannot, in my view, expect to achieve our objectives in trade and finance unless we are willing to provide our fair share for economic development.

After why, the second major question, Mr. Chairman, is how to provide foreign economic assistance. Why use multilateral institutions? The answer is that the international institutions are efficient and effective. They have been organized and operated as responsible financial institutions. They sell their bonds in the marketplace and they are disciplined by the demands of the marketplace. This discipline is reflected in good organization, management, and staffing and high quality of analysis. In my judgment, there is a place for them just as there is an important place for bilateral aid programs. The multilateral and bilateral programs complement each other.

There is also the financial advantage of burden sharing. U.S. Government paid-in contributions—an important element of what we are asking you to appropriate today—are greatly increased by paid-in contributions of other developed countries. Since the inception of the institutions, these other developed countries have provided a total of $4.8 billion. Their share is steadily increasing and smaller industrial countries who could not mount their own bilateral programs can contribute through the banks. Thus, we get a greater degree of burden sharing than we would otherwise get.

The paid-in capital contributions of the U.S. Government are also leveraged to a great extent by the banks' borrowings in the world's private capital markets. Since the establishment of the banks, 77 percent of capital funds, or a total of $14 billion has come from private markets and has been re-lent at market or near market rates. This represents an enormous mobilization of private capital for economic development purposes at no cost to the U.S. taxpayer. Furthermore, in recent years a large and growing percentage of these borrowings have been made in Western Europe and Japan. In fact, during the past 2 years borrowings by the international institutions have taken place almost exclusively outside the United States. As a Treasury official, I consider these budgetary and foreign exchange factors important ones to keep in mind.

Against this background, let me turn now to the specific proposals before you which are summarized in this table by institution.

FISCAL YEAR 1974 BUDGETARY REQUESTS FOR THE INTERNATIONAL FINANCIAL INSTITUTIONS

[Dollars in millions]

International Development Association		$320
Inter-American Development Bank:		
Callable ordinary capital	($168.0)	
Paid-in ordinary capital	(25.0)	193
Fund for special operations		500
Asian Development Bank:		
Special funds		100
Callable ordinary capital	(96.8)	
Paid-in ordinary capital	(24.2)	121
Total		1,234

New budget authority sought this year amounts to $1.2 billion: $320 million for the International Development Association; $500 million for the Fund for Special Operations of the Inter-American Development Bank and $193 million to its ordinary capital resources; $100 million to the Special Funds of the Asian Development Bank, and $121 million to its ordinary capital.

A large portion of this total relates to programs for which funding was sought but not received in fiscal 1973. The amounts not funded under the fiscal 1973 continuing resolution are: $193 million for the Ordinary Capital of the Inter-American Development Bank, $225 million for the Fund for Special Operations, and $100 million for the Special Funds of the Asian Development Bank. Projected budgetary outlays for fiscal 1974 amount to $548 million practically all of which stems from prior year appropriation.

The IDA contribution of $320 million is the second tranche of the third replenishment. The third replenishment formally came into effect in September 1972 when the United States agreed to make available its share of $960 million. Shortly thereafter the United States paid its first tranche of $320 million under the Continuing Resolution of October 26, 1972. Under terms of the original agreement, the second tranche was due on November 15, 1972.

As members of the committee know, IDA is the concessional lending affiliate of the International Bank for Reconstruction and Development. Its funds are used to finance development projects and programs on concessional terms—in the poorest of the developing countries, that is, those countries with annual per capita incomes of $300 or below. Its terms are 50 years maturity, including 10 years grace, and a service charge of three-fourths of 1 percent per annum. As of December 31, 1972, it had made total cumulative commitments of $4,608 million mainy in agriculture and transportation. In recent years, it has placed an increasing emphasis on education, housing, and related areas.

In its report of May 11, 1972, the committee of conference on supplemental appropriations said:

> The managers agree that there is no intention of denying each of the three annual installments of $320 million in the next three fiscal years and that the first installment will be provided in the fiscal year beginning July 1, 1972. I urge this subcommittee to act promptly in the spirit of that joint explanatory statement.

The $193 million for the Inter-American Development Bank's ordinary capital is part of the third and final tranche of the current in-

crease in those resources. One hundred sixty eight million dollars of this amount represents callable guarantee capital and does not constitute a budgetary outlay. Twenty five million dollars is to the paid-in. It will, however, be paid in the form of non-interest-bearing letters of credit and not constitute a budgetary outlay in fiscal 1974. These two amounts, as well as the $193 million appropriated by the Congress in fiscal 1973's continuing resolution, will be due under terms of the original agreement on June 30, 1973.

The $500 million for FSO resources represents further funding toward our $1 billion contribution to the concessional lending resources of the IDB. All of these funds will also be provided in letter of credit form to be drawn down later. As a result, there will be no budgetary impact in fiscal year 1974. Under the original understanding between the United States and Latin countries, the United States would have completed the final installment of the $1 billion contribution by the end of fiscal 1973. Assuming full appropriation of this year's request, $775 million will have been provided before the end of fiscal 1974. Provision of the requested $500 million will thus still represent a considerable stretchout of the U.S. contribution to the FSO replenishment.

On January 1, of this year, uncommitted hard currency resources available to the FSO were $353 million. This included $20 million from the Canadian contribution, $275 million which we made available on December 21, 1972, under the continuing resolution and prior appropriation, and $56 million in residual resources. These funds, however, are now expected to be exhausted in the final quarter of this year. Action on your part, is needed if IDB concessional lending activity is to continue through this calendar year.

The first Asian Development Bank request is for $100 million for Special Funds for concessional lending. It was deleted entirely for fiscal year 1973 under the terms of the continuing resolution. Thus far, the United States has not been able to make any funds available to the Bank for this program, although proposals to do so have been before the Congress for several years. Other developed nations—the United Kingdom, Canada, Australia, New Zealand, Netherlands, Norway, Germany, Italy, Belgium, Finland, and Japan—have gone ahead to make more than $240 million available to the Bank on an ad hoc bilateral basis. As of December 31, 1972, $201.5 million had been committed on Special Funds loans, and the balance of the Bank's Special Funds resources is expected to be fully committed by September of this year.

Under the terms of authorizing legislation, passed by the Congress in February 1972, the funds in this request are to be tied to the purchase of goods and services and priority is to be given to projects and programs in Southeast Asia. Until we contribute, U.S. suppliers will remain ineligible for procurement from the contributed Special Fund resources of the Bank. This item has been long delayed. I urge its prompt passage.

The other portion of our ADB request relates to the increase in the ordinary capital resources of the Bank. The Governors of the Bank, with the U.S. Governor abstaining, passed a resolution in November 1971 authorizing a 150-percent increase in the capital stock. This was done in order to permit an orderly 10-percent per annum increase in the ordinary capital lending of the Bank over the years 1973–75. By November 1972, enough members had taken up their shares to permit the increase in resources formally to come into effect. When this hap-

pened, the voting power of the United States was automatically reduced from 16 percent to 8 percent while that of other countries rose proportionally in the absence of U.S. participation.

Authorizing legislation for U.S. participation will be submitted to the Congress shortly. We are thus testifying today on an appropriation request that will be for later transmittal. Assuming approval of the proposed legislation on change of par value, the total authorization would be for $362 million. Of this amount, 80 percent or $289 million would be callable guarantee capital and not constitute an actual budgetary outlay. The remaining 20 percent, $72.4 million, would be paid-in over a 3-year period, 40 percent in cash and 60 percent in noninterest-bearing letters of credit to be drawn down later as needed for disbursement. New budget authority being requested for fiscal 1974 would be $121 million. Fiscal year 1974 budgetary impact is limited to $9.6 million. This appropriation should go forward in order to permit the United States to regain its original equity position in the Bank.

That completes my review of the specific amounts being requested. I would like to turn now to some matters that may result in future appropriations requests. Over the past year, Treasury has sought to find better ways of consulting with the Congress in advance of formal appropriations requests so that, as specifically requested by this committee, no new international commitments are entered into without your full prior knowledge. It is in this spirit that we have kept the Congress and your committee, Mr. Chairman, informed by letter and by informal briefings. Now I want to summarize, formally and for the record, where we stand on two important issues—a fourth replenishment of IDA and the restructuring and replenishment of ADB Special Funds.

First, with regard to IDA IV, as I indicated in my letter to you of March 6, a meeting of part I countries was held on March 13, in London. Other developed nations are now clearly ready to go ahead with a new round of contributions to permit IDA lending to continue in fiscal year 1975 and beyond. Thus far, the United States has played a passive role, informing others that until consultations were held with our Congress, we would not be in a position to discuss amounts. Nonetheless, a broad consensus has developed among the other developed nations on a 3-year pay-in program at an annual rate of $1.5 billion. On the basis of our existing percentage rate, this would mean an annual U.S. contribution of $600 million for 3 years beginning in fiscal year 1976. However, we have also made it clear that a very large reduction in our percentage share is necessary for our participation in view of our serious balance-of-payments situation.

Mr. Chairman, you yourself have pointed out the necessity for consultations on these matters with the Appropriations Committees. The Treasury Department wants to have the benefit of your committee's general views on amounts before continuing further with the negotiations.

The next meeting on this matter will be held in Tokyo in May. We would welcome, Mr. Chairman, the participation of members of this subcommittee as members of the U.S. delegation to that meeting.

As we have explained in the past, because of the number of nations involved, we need quite a long leadtime. We would hope that negotiations could go forward in time for submission to legislatures by the end of the year.

A meeting was also held in March on a proposal to restructure and replenish the special funds resources of the Asian Development Bank. As I indicated in my letter, this was a follow-on to a preliminary meeting of ADB developed member countries held on this subject in September 1972, at the time of the IMF/IBRD annual meetings. The proposal would create a pool of funds, on the IDA model but smaller, to replace the present system of bilateral contributions made on an unscheduled basis. At both meetings, the U.S. position was the same. We could not now move beyond acceptance in principle of the concept of the fund; that is, that ideally funds should be made available on a multilaterally negotiated basis and be available for use under common terms and conditions. In taking this position, it was emphasized that the United States was experiencing serious trade and balance-of-payments problems which would affect our ability to provide funds on an untied basis.

In order to accommodate to the fact that we have not yet made our initial contribution of $100 million to special funds, other developed members are now considering the possibility of launching and contributing to this new fund structure in two stages, representing two-thirds and one-third of the total, respectively. Under this approach, the $100 million contribution, presently authorized but not appropriated, could serve as our share of the first stage and could be tied to procurement of U.S. goods and services. This approach would also imply, in the second stage, a further U.S. contribution of $50 million. Since the overall amount being discussed is $525 million, our share under the two-stage arrangement would be approximately 28 percent of the total. As you recall, others have already paid in more than $240 million, which would not count as part of the new proposal although our initial contribution would. I also need an expression of your views before we can proceed further along this line.

The final part of my statement, Mr. Chairman, deals with two reports released by the General Accounting Office: the first on Treasury's management of U.S. participation in the Inter-American Development Bank, dated August 22, 1972; the second on our participation in the World Bank and IDA, dated February 14, 1973.

As indicated, both in the annex of the report, itself, and in my testimony before Mr. Fascell last fall, Treasury has accepted and implemented the recommendations of the IDB report. However, we very strongly disagreed with its overall highly critical tone. We think that Treasury has a good and improving system for managing U.S. participation in the Bank. In my judgment, the GAO report did not take adequate account of progress achieved by Treasury and the Bank itself. The details of our implementation of the recommendations are contained in a separate report I am now submitting for the record.

The GAO report on our participation in the World Bank and IDA has a number of recommendations which are identical to those in the IDB report. We are now completing our formal response to the Government Operations Committees of the House and the Senate. We will also report to this committee on our progress in implementing these recommendations as well.

[The summary follows:]

SUMMARY OF TREASURY DEPARTMENT ACTIONS TO IMPLEMENT GAO RECOMMENDATIONS

U.S. SYSTEM FOR APPRAISING AND EVALUATING INTER-AMERICAN DEVELOPMENT BANK PROJECTS AND ACTIVITIES

The Treasury Department's complete response to the report is contained in an annex of the report, itself, and in Assistant Secretary Hennessy's testimony before a subcommittee of the House Foreign Affairs Committee on September 22, 1972. Although the Department has accepted all of the recommendations which were made, we very strongly disagree with the over-all highly critical tone of the report. We continue to think that we have developed a good and improving system for managing U.S. participation in the Bank. In our judgment, the GAO report has not taken adequate account of progress achieved by the Treasury Department and the Bank, itself.

The GAO's major recommendations were:

1. *Recommendation.*—The United States should sort out the recommendations of the Group of Controllers it wishes to support and vigorously pursue their acceptance and recommendation.

Action.—The U.S. Government has adopted and supported firm positions on all the recommendations in the three controller group reports acted upon by the IDB Board of Executive Directors. The Board, with the support of the United States, has taken action on all the recommendations in those reports. Implementation of the Board's decisions is being pressed. At the initiative of the United States, a deadline has been established for receipt of the Bank management's comments on reports submitted by the group, and a system of semiannual reports on progress made toward implementation of recommendations has been set up. The first of these reports is due on June 30, 1973.

Two other Controller Group Reports have been released very recently and are under study and review within the U.S. Government. These two reports are: Reporting Systems (December 1972) and Preinvestment Studies (January 1973).

2. *Recommendation.*—The United States should arrange for the development of instructions that stipulate the desired depth and parameters of the U.S. process for appraising proposed projects to guide U.S. officials and technicians in making their appraisals. These instructions should include a clear statement of policy regarding the appraisal of the economic and technical aspects of the projects.

Action.—Instructions and guidelines for appraisal of loan proposals have always existed within the U.S. Government. What has not heretofore existed is their formal codification. A preliminary edition of this formal codification has, however, been issued this month. It is available to officials and technicians in the five NAC agencies. It now contains nearly 50 pages of detailed information relating to loan proposal documentation, project criteria, special policy criteria, and country performance criteria. It can be expanded and modified to accommodate additional requirements or changes in policy.

3. *Recommendation.*—The United States should arrange for followup on the U.S. positions with respect to specific loan proposals to determine the extent to

which they have been accepted in the implementation of the project. Provision also should be made for the feedback of results to those officials and technicians participating in the appraisal process for use in subsequent appraisals.

Action.—Followup action has always been taken on U.S. positions on specific loan proposals. It is now being done on a formalized basis. The U.S. Executive Director's Office at the IDB reports regularly both verbally and in writing to members of the NAC Staff Committee on points they have raised. These reports are now incorporated into the minutes of meetings. In addition, a new reporting requirement has been added to the combined economic reporting program (CERP). It requires reports from U.S. personnel in the field on IFI-financed projects and on project proposals which may be submitted to the IFI's in the future. Revision of this requirement will be made as necessary to assure an adequate flow of information back to Washington.

4. *Recommendation.*—The United States should take the necessary steps to develop, and get agreement among member countries on firm and sustainable criteria for eligibility for IDB lending. Such criteria, although based predominantly on the economic performance of recipient countries, should also provide for such things as guidelines on access to resources of FSO by more developed countries and recognize the need for value judgments in certain individual cases.

Action.—Economic performance of recipient countries has always been considered by the Bank. This is done through annual economic reviews conducted under aegis of the CIAP. Reviews are attended by representatives from the IMF, IBRD, IDB, and USAID. In two instances, the IDB has halted lending activity for extended periods of time because of inadequate economic performance.

In July 1972, the Board of Directors of the IDB received a management plan to phase down access to FSO resources by relatively more advanced recipient countries. This phasedown will take place over a 3-year period in 1972–75 and reduce the share of the four largest countries from 40 percent to 20 percent. This was a course of action earlier urged by the U.S. Government.

General Statement of Reuben Sternfeld

Mr. Sternfeld. Mr. Chairman, I would like to present to the committee a summary of the record of the Inter-American Development Bank since my appearance last year. This summary includes the lending activities of the Bank as well as what has been done to strengthen and improve its operations. It also details action taken in response to suggestions and recommendations on increasing the effectiveness of U.S. participation in the Bank.

For calendar year 1972, the Inter-American Development Bank committed a total of US$807 million for loans in various currencies. This represented 52 loans to foster Latin America's development and is a record figure for the Bank's lending in any 1 year. It has pushed the Bank's cumulative lending level to US$5.4 billion (719 loans). I am sure, however, that you recognize the Bank's loans are only one part of the story. The projects financed with these loans have a total value of US$16 billion. As one can appreciate from these figures, the Bank's role as a catalyst for other development investment financed from both private and public sources is important in our hemisphere.

In specific terms, concrete results from lending to this point can be summarized as follows:

(1) 6.0 million acres have been brought into new or accelerated production;

(2) 20,000 miles of main highways and farmer-to-market roads have built or improved;

(3) 2.7 million kilowatts of new electric generating capacity has been installed.

(4) 628 universities and schools have been helped by IDB loans.

(5) Nearly 320,000 housing units with community facilities have been constructed.

(6) 3,945 water supply and sewerage systems have been put in operation.

(7) 5,097 small entrepreneurs have been helped through the Bank's intermediate credit program.

Of the US$807 million total 1972 lending, US$344 million was authorized from the resources of the Fund for Special Operations and US$443 million was authorized from Ordinary Capital. In addition, US$20 million was committed from special funds entrusted to the Bank by certain nonmember countries.

Several additional statistics will be of interest: during 1972, disbursements against outstanding Bank loans increased to a level of US$479 million, repayments of principal reached US$147 million—again the highest level in the Bank's history—and were all current with two exceptions of private borrowers in Brazil and Chile, who were delinquent in amortization and interest payments. The Bank continues to pursue its interest in these cases and is confident that there will be recovery.

Borrowings on the capital markets in Japan and Europe were US$141 million in new funds. Thus, for the second consecutive year the Bank was able to obtain needed funds without recourse to the U.S. capital market. In total, 58 percent of IDB borrowings have been placed in markets outside the United States. I am attaching a table which shows the distribution of the Bank loans by sector for the year 1972, and for the 11 years of the Bank's life, as well as a table on the undisbursed balances of approved loans.

It is heartening to be able to report the above progress in lending activity and mobilization of resources for development. It is also gratifying to be able to report improvements and new departures in the Bank's approach to the allocation of its resources to the development problems of Latin America in the context of the 1970's.

From time of its establishment, the Bank has exercised leadership in making loans for projects and programs designed to reach the economic and social problems of the low income people of Latin America. Progressively, the Bank has evolved new techniques and approaches to meet the circumstances as they exist. The heavy emphasis on agriculture in the Bank portfolio is one measure of this; the number of projects in potable water and education is another expression of this concern. During 1972, we continued along these lines with additional loans for small farmer credit, rural potable water and small irrigation systems. The Bank has also been able to evolve new approaches to the serious problems of urban development in the region and to promote further regional economic integration, as reflected in a 1972 loan

from Ordinary Capital for US$80 million to finance a $432 million integrated hydroelectric powerplant being built jointly by Argentina and Uruguay—the most important economic integration project ever undertaken by the Bank.

During the past year, the Bank has made significant progress in reevaluating and realining its organization policies and procedures to adjust them to the realities of current needs and circumstances. In July of 1972, the Bank put into effect a significant new policy designed to allocate a progressively increasing share of its soft resources to relatively less developed member countries. Correspondingly, the Bank is phasing down its soft loan support to the larger and relatively advanced member countries. As part of this policy, the Bank established a category of relatively less developed countries which includes nine of its 24 members. Forty-nine percent of FSO loans were allocated to these nine countries in 1972, compared with an average of 23 percent in the years 1966–67. The goal for 1973 and future years is to continue to assign higher proportions of the Bank's soft resources to these relatively less developed countries. This has the effect of using scarce soft loan resources where they are most needed, and allocating the more costly resources to those countries in relatively better economic condition.

Another major change in FSO policy will have its effect beginning this year when loans made from the new FSO resources will be required to be repaid in the currencies lent. This replaces the former policy of allowing most borrowers the option of repaying either in local currencies or in dollars.

Significant actions are underway to implement the organizational changes recommended by a major U.S. management consulting firm. Fundamental procedural changes are also being made to further improve the control and quality of Bank operations. Some of the reforms include: (1) Removing the technical project preparation and appraisal function from supervision by officers making loans. This independence enhances the importance of technical and engineering judgments in project development and execution, particularly in the analysis of the feasibility and efficiency of a project. (2) Combining in one office and on a geographic basis, the overall responsibility for loan preparation and administration until completion of a project. This change will clearly pinpoint responsibility for operations. (3) Establishing a special group of top management to function as a loan and technical assistance review and evaluation committee. The committee now regularly screens out loan requests when initial applications are submitted. It also reviews all projects before they are considered by the Board and rejects those not ready for Board action.

In the area of management control, there have been also some important changes. A controller (a Canadian citizen) has been named with broad responsibility to assure that the Bank's activities are consistent with policies, programs, procedures, and directives. As noted by the GAO, the Board of Executive Directors' Group of Controllers is now presenting greatly improved reports with specific actions recommended for the Board and management. A followup system has been established to see that recommendations accepted are carried out. In addition, the Bank is combining all procedures in an organized manual system and setting up a master plan for computer use. In this connection, I also want to note that with a major increase in level and com-

plexity of operations, the 1972 administrative expenses were only 2.9 percent above those for 1971, and no increase is authorized staff positions has been approved by the Board for 1973.

I don't mean to say that the entire job of management improvement has been accomplished. There continues to be a need for further organizational tightening, for improvement in the operations of the field offices, and for strengthening of the management and information systems. However, I am satisfied that the Bank will pursue these and additional areas of economy and efficiency in the coming year.

The GAO has issued two reports relating to the Inter-American Development Bank. The first, an evaluation of the early work of the group of controllers and the second on the effectiveness of U.S. participation in the IDB. As I just indicated, the work of the group of controllers has benefited from the views of the GAO and there have been major improvements. The GAO is currently making an assessment of their most recent reports.

With regard to GAO views on U.S. participation in the Bank in general, we have accepted their recommendations. The GAO recommended that the United States should support the work of the group of controllers. This is being done. To date, five reports have been prepared by the group. Of these, three have been studied by the United States and action has been taken by the Board of Directors. The remaining two reports were only recently completed, and they are presently undergoing detailed study by U.S. agencies, and will shortly go to the Board for formal action. In addition, at U.S. initiative, the Board has requested Bank management to report twice a year on the steps taken to implement the Board decisions on controller group recommendations on all reports. The first implementation report is due June 30, 1973.

In closing, I would like to refer to the list of project proposals as of December 31, 1972 totaling $1.4 billion, which has been made available to the subcommittee and which the Bank staff is reviewing. It is from this list and additional applications which may come in during the year that loans will be approved by the Board of Executive Directors. Some will be rejected. A good number will be altered in the process of review and evaluation, but this list provides the bulk of the work of the Bank in this year, depending on the availability of funds including the sums we are requesting today.

[The tables follow:]

INTER-AMERICAN DEVELOPMENT BANK, DISTRIBUTION OF LOANS BY SECTOR

[In millions of dollars]

Sector	1972	1961–72
Agriculture	$130	$1,283
Electric power	233	973
Transportation and communications	124	951
Industry and mining	160	813
Water and sewage systems	61	595
Urban development	44	402
Education	29	197
Preinvestment	9	100
Export financing	16	91
Tourism	1	35
Total	807	5,541

UNDISBURSED BALANCES OF APPROVED LOANS,[1] (AS OF DEC. 31 OF EACH YEAR)

[In millions of U.S. dollars]

	Ordinary capital			Fund for special operations			
	Dollars and other hard currencies	Latin American currencies	Total	Dollars	Latin American currencies	Total	Total
1961	90.0	33.2	123.2	43.4	2.1	45.5	168.7
1962	146.3	28.2	174.5	66.8	10.1	76.9	251.4
1963	249.8	37.5	287.3	78.3	16.7	95.0	382.3
1964	184.1	56.0	340.1	98.5	21.2	119.7	459.8
1965	321.7	44.1	365.8	241.0	45.5	286.5	652.3
1966	325.4	38.2	363.6	428.8	103.6	532.4	896.0
1967	362.5	36.8	399.3	618.5	154.9	773.4	1,172.7
1968	433.7	32.7	466.4	689.4	165.8	855.2	1,321.6
1969	515.8	23.7	539.5	827.8	246.8	1,074.6	1,614.1
1970	552.1	30.2	582.3	943.5	326.6	1,270.1	1,852.4
1971	618.1	43.4	661.5	1,026.4	377.9	1,404.3	2,065.8
1972	810.1	61.9	872.0	1,032.0	375.9	1,407.9	2,279.9

[1] Does not include uncommitted balances, nor undisbursed balances of loan participations sold.

Mr. PASSMAN. Thank you for your statements. We will insert the justifications in the record at this point.

[The justifications follow:]

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 operations	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
Public Law 92–246: Increase in fund for special operations	900,000
First Supplemental Appropriation Act, 1960:	*Amount*
Paid-in capital	30,000
Callable capital	200,000
Vund for special operations	50,000

Funds appropriated to the President, Inter-American Development Bank (dollars in thousands)—Continued

Authorizations	*Total, U.S. participation authorized*
Foreign assistance and Related Agencies Appropriation Act: 1962:	
Paid-in capital	60, 000
Fund for special operations	50, 000
Foreign Aid and Related Agencies Appropriation Act, 1963: Paid-in capital	60, 000
	450, 000
Foreign Aid and Related Agencies Appropriation Act, 1964: Fund for special operations	50, 000
Foreign Aid and Related Agencies Appropriation Act, 1965: Callable capital	205, 880
Second Supplemental Appropriations Act, 1965: Fund for special operations	250, 000
Foreign Assistance and Related Agencies Appropriation Act: 1966:	
Callable capital	205, 880
Fund for special operations	250, 000
Foreign Assistance and Related Agencies Apporpriation Act, 1967: Fund for special operations	250, 000
	1, 211, 760
Foreign Assistance and Related Agencies Appropriation Act, 1968: Fund for special operations	300, 000
Foreign Assistance and Related Agencies Appropriation 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
Second Supplemental Appropriation Act, 1971:	
Paid-in capital	25, 000
Callable capital	200, 000
Fund for special operations	50, 000
Foreign Assistance and Related Programs Appropriation Act, 1972:	
Paid-in capital	75, 000
Callable capital	136, 760
Joint resolution making continuing appropriations, 1973, Public Law 93–9:	
Paid-in capital	25, 000
Callable capital	168, 380
Fund for special operations	225, 000
1974 budget estimate:	
Paid-in capital	25, 000
Callable capital	168, 380
Fund for special operations	500, 000

INTER-AMERICAN DEVELOPMENT BANK

ORDINARY CAPITAL JUSTIFICATION FOR FISCAL YEAR 1974 APPROPRIATIONS

The Inter-American Development Bank (IDB) is an intergovernmental organization, which is corporate in form and whose capital stock is owned by its member governments. It was established in 1959 to promote economic development in its member countries through loans, technical assistance, and guarantees of private investment in specific projects. It makes conventional loans with paid-in capital subscriptions of members and with proceeds from borrow-

ings in private capital markets which are based on members' callable guarantee capital subscriptions.

As of December 31, 1972, it had 24 Western Hemisphere member countries including the United States and Canada. Cuba is not a member. As of the same date, the Bank had authorized capital stock of $5,150 million. Of this amount $4,373 million had been subscribed, $3,641 million in callable guarantee capital form. As of the same date, cumulative ordinary capital loans were $2.169.8 million and net funded debt was $1,130.8 million.

The United States became a member of the Bank in 1959, following approval of authorizing legislation (Public Law 86–147) on August 7, 1959, and of appropriation legislation (Public Law 86–213) on September 1, 1959 for paid-in capital of $30 million and callable guarantee capital of $200 million. The remaining paid-in portion of the original U.S. subscription amounted to $120 million and was appropriated in two equal annual installments in 1961 (Public Law 87–329) and 1962 (Public Law 87–872).

In the 1960's, two increases in authorized callable guarantee capital totaling $2,300 million were approved. The United States participated in both the increases by subscribing to an additional $823.6 million in callable guarantee capital. This permitted an expansion of conventional lending activity based entirely on private capital market borrowings.

In 1971, the members of the Bank further expanded the authorized capital stock by $2,000 million. This increase also included a paid-in portion of 20 percent. The U.S. equity share of the increase amounted to $823.5 million, of which $150 million was to be paid-in and $673.5 million was to be in the form of callable guarantee capital. Both paid-in and callable capital were to be made available over a 3-year period. Congress authorized full U.S. participation on December 30, 1970 (Public Law 91–599) and appropriated $225 million in the Second Supplemental Appropriations Act of 1971 (Public Law 92–18) and $211.8 million in the Foreign Assistance Act of 1972 (Public Law 92–242). In fiscal year 1973, an additional partial appropriation of $193 million was approved under terms of the continuing resolution on foreign assistance of October 15, 1972.

The request now being made is for that portion of the last appropriation request which was not included in the continuing resolution of October 15, 1972. It amounts to $193 million of which is callable guarantee capital. It is needed to complete U.S. participation in the ordinary capital increase of the Inter-American Development Bank. Both paid-in and callable capital are due in terms of the original understanding, on June 30, 1972. Funding action by the Congress is needed to permit an orderly expansion of IDB conventional lending activity. The $25 million will be made available to the Bank in the form of non-interest-bearing letters of credit to be drawn down later for disbursement needs. No budgetary outlay will result in fiscal year 1974 from this appropriation request. The callable guarantee capital portion of the request would constitute a budgetary outlay only in the unlikely event it had to be drawn down to help service the Bank's obligations to bondholders.

FUND FOR SPECIAL OPERATIONS FISCAL YEAR 1974 APPROPRIATIONS

In addition to its ordinary capital operations, the Bank lends from the Fund for Special Operations (FSO) in circumstances where ordinary capital financing is not appropriate. Loans are made on concessional terms and extended entirely from resources provided by the United States and other members of the Bank. Initial FSO resources totaled $146.3 million; after successive increases, they stood at $2,328 million prior to the current replenishment exercise.

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 the payment of $50 million for the first increase in the U.S. quota. U.S. payments totaling $750 million for the second increase in the U.S. quota were authorized in Public Law 86–6, March 24, 1965. A third increase in the U.S. quota, by $900 million, was authorized by Public Law 90–88, September 22, 1967. Payments under that increase were completed in 1970. The U.S. share of these successive increases vis-a-vis the Latin American share has gradually been declining.

In 1970, the United States undertook to seek congressional approval for a further $1,000 million, 3-year contribution. On December 30, of that year, Congress authorized (Public Law 91–599) the first $100 million toward this contribution and the remaining balance of $900 million was authorized on March 10,

1972 (Public Law 92-246). To date, $275 million of the authorization has been appropriated, $50 million in the Second Supplemental Appropriations Act of 1971 (Public Law 92-18) and $225 million under the continuing resolution on October 15, 1972, on foreign assistance and related items.

On December 21, 1972, the United States agreed to the replenishment and deposited $275 million by amending its letter of credit to the Inter-American Development Bank. It was indicated at the time that the remaining portion would be provided subject to appropriation by the Congress. This action formally brought the replenishment agreement into effect.

The present request is for $500 million. It is needed to permit the continuation of concessional lending by the Bank. As of December 31, 1972, the Fund for Special Operations had $352 million in uncommitted funds. This amount included $21 million from the Canadian contribution, the $275 million provided by the United States on December 21, 1972, and $56 million in residual uncommitted resources. If presently planned loans are made, these funds will be exhausted during the final quarter of this calendar year. Funds being requested will be provided in non-interest-bearing letter of credit form. This procedure will insure the deferral of budgetary impact and the spread over several years of disbursements against this letter of credit. No expenditures will result from this request in fiscal year 1974.

INTER-AMERICAN DEVELOPMENT BANK—ORDINARY CAPITAL, DEC. 31, 1972 AND 1971

BALANCE SHEETS

[Expressed in thousands of U.S. dollars—see notes to financial statements—appendix I-7]

	1972	1971
ASSETS		
Due from banks:		
Unrestricted:		
Member currencies	$60,391	$53,075
Nonmember currencies	956	17,167
Restricted: Member currencies (note C)	16,306	11,755
Subtotal	77,653	81,997
Investments:		
Obligations of governments at cost or amortized cost (face amount 1972—$18,106; 1971—$28,441)	18,009	28,102
Time deposits:		
United States and Canadian dollars	461,226	404,470
Nonmember currencies	271,046	224,475
Subtotal	750,281	657,047
Loans outstanding held by Bank (appendix I-5) (notes D and E):		
Total loans approved by Bank since inception, less cancellations	2,161,829	1,763,452
Less principal repayments to Bank and loans sold or agreed to be sold	407,781	321,183
Less undisbursed balance of approved loans held by Bank	872,019	661,545
Subtotal	882,029	780,724
Accrued investest and other charges:		
Investments	17,741	19,161
Loans (notes D and E)	17,897	15,266
Subtotal	35,638	34,427
Due from members in member currencies:		
Capital subscriptions receivable (appendix I-6)	29,402	7,618
Nonnegotiable, noninterest-bearing demand obligations (appendix I-6)	214,840	47,973
Amounts required to maintain value of currency holdings (note B)	12,465	-------
Subtotal	256,707	55,591
Other assets:		
Land and building at cost—less accumulated depreciation, 1972—$1,261; 1971—$1,113	8,866	8,960
Unamortized funded debt issue costs (amortized over the life of the issues)	11,514	9,727
Advance paid-in capital quotas (appendix I-6, note 7)	4,720	-------
Miscellaneous (note E)	10,167	1,799
Subtotal	35,267	20,486
Special reserve assets (note F)	43,320	32,523
Total assets	2,080,895	1,662,795

INTER-AMERICAN DEVELOPMENT BANK—ORDINARY CAPITAL, DEC. 31, 1972 AND 1971—Continued

BALANCE SHEETS—Continued

[Expressed in thousands of U.S. dollars—see notes to financial statements—appendix I–7]

	1972	1971
LIABILITIES, RESERVE AND SPECIAL FUNDS, AND CAPITAL		
Liabilities:		
Accrued interest on borrowings	18,487	16,607
Accrued expenses and accounts payable	1,750	1,407
Mortgage payable	3,491	3,666
Funded debt (appendix I–4):		
Principal outstanding	1,137,388	1,017,772
Less unamortized debt discount	6,576	6,223
Subtotal	1,130,812	1,011,549
Reserve and special funds:		
Special reserve (note F)	43,320	32,523
Fund for special supervision and inspection of loans (note G)	3,914	2,812
Advance paid-in capital quotas	4,720	
Capital:		
Capital stock (appendix I–6):		
Authorized 515,000 shares of $10,000 par value each; subscribed shares 1972—402,779.9; 1971—346,594.6	4,373,022	3,465,946
Less—Callable portion	3,640,923	2,993,820
Subtotal	732,099	472,126
General reserve (appendix I–2) (note A):		
From accumulated net income	141,166	122,105
From maintaining value of currency holdings	1,136	
Subtotal	142,302	122,105
Total	874,401	594,231
Commitments (note H)		
Total liabilities, reserve and special funds and capital	2,080,895	1,662,795
STATEMENTS OF INCOME, EXPENSES AND GENERAL RESERVE		
Income:		
From loans:		
Interest	$46,470	$37,597
Commitment charges	8,885	7,352
Commissions	7,973	6,875
Subtotal	63,328	51,824
From investments	41,260	46,236
From other sources, principally gain on purchases of funded debt	2,404	4,514
Gross income	106,992	102,574
Deduct commissions allocated to special reserve (note A)	7,973	6,875
Gross income less reserve deduction	99,019	95,699
Expenses:		
Funded debt expense	67,911	60,461
Administrative expenses (notes A and I):		
Salaries	6,463	6,028
Other compensation and benefits	2,243	2,907
Office occupancy	843	883
Other	2,671	2,857
Subtotal	12,220	11,865
Less amounts charged to social progress trust fund for indirect and overhead expenses by Bank as Administrator (appendix III–2)	173	198
Total, administrative expenses	12,047	11,667
Total, expenses	79,958	72,128
Net income	19,061	23,571

INTER-AMERICAN DEVELOPMENT BANK—ORDINARY CAPITAL, DEC. 31, 1972 AND 1971—Continued

BALANCE SHEETS—Continued

	1972	197
General reserve:		
Accumulated net income beginning of year	122,105	98,534
Accumulated net income end of year	141,166	122,105
Special credit arising from maintaining value of currency holdings (note B)	1,136	
General reserve end of year (note A)	142,302	122,150

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Source of funds:		
Provided from operations:		
Net income (appendix I–2)	$19,061	$23,571
Add expenses not requiring cash funds	304	1,756
Cash funds provided from operations	19,365	25,327
Proceeds from issuance of funded debt	176,105	137,621
Increase in funded debt resulting from currency revaluations		45,793
Paid-in capital subscribed by members	259,973	83,646
Loan repayments	80,420	73,948
Proceeds from loan participations	2,672	11,278
Proceeds from delivery of bonds sold in 1970		4,962
Special addition to general reserve (note B)	1,136	
Other	1,134	922
Total source of funds	540,805	383,497
Application of funds:		
Loan disbursements	185,813	179,964
Increase in loans outstanding resulting from currency revaluations		18,360
Retirement of funded debt	55,293	77,413
Increase in notes and receivables due from members	201,116	43,195
Repayments to participants	6,565	6,118
Funded debt issue costs	2,899	2,313
Other	229	592
Total application of funds	451,915	327,955
Increase in cash funds	88,890	55,542
Analysis of increase in cash funds:		
Due from banks (includes increase of $2,252 in 1971 resulting from currency revaluations)	(4,344)	42,940
Investments (includes increase of $24,811 in 1971 resulting from currency revaluations)	93,234	12,602
	88,890	55,542

Mr. PASSMAN. At this time I would like to yield 5 minutes to Mr. Long under the rules of the committee so that he may interrogate before we start the more detailed questioning on some of the specifics of the bill. Dr. Long.

Mr. LONG. I yield to the chairman at the present time.

Mr. PASSMAN. I would prefer that you use your 5 minutes at this time.

Mr. LONG. I yield to the chairman. I always find his questions penetrating and analytical.

Mr. PASSMAN. Beneficial?

Mr. LONG. I learn much more from listening to my chairman than I do from questioning the witnesses.

Mr. PASSMAN. I now yield to Mr. Shriver, the required 5 minutes.

Mr. SHRIVER. Will you expand on your observation that our participation in these institutions is important because of current international trade and finance negotiations.

Mr. HENNESSEY. Yes, I will be glad to, Mr. Shriver.

We look at it this way. Starting on August 15, 1971, the President embarked on what we call a new economic program internationally, in which he started a determined effort to improve the balance-of-payments and balance-of-trade situation of the United States. He recognized and said very explicitly, I think maybe for the first time in 25 years, that the system as it was set up was unfavorable, unbalanced against the U.S. interests, and that he wanted to do two things in particular. To reform the international monetary system, that is to say, the rules of that system, the way it worked, so that the United States would have the same rights and privileges that other nations had.

In the trading area there were barriers that had been erected after the war, which were still up and which were keeping our goods out of foreign countries. On the other side of the coin their goods are coming freely into our country. This situation had to change. We have embarked on and are now in the middle of the monetary negotiations. The trade negotiations will formally begin this September.

The United States, and the President in particular, who is in charge of the overall question of reforming the international economic situation, is going to fight very hard to get a fair shake for the United States in both money and trade. In my judgment, trade, monetary affairs, and development are three legs of the same stool. There are developing countries who are involved in this and there are other developed countries. If we have a fair share, if we are asking other nations to engage in a fair share in monetary trade we have to pick up our fair share of the world's aid effort. We think it is an important benefit.

It benefits also our economy. As I mentioned in my prepared statement submitted for the record there is a lot of economic self-interest in the aid. Our best customers are the developing nations. We don't think we can have it both ways. We can't back away from our obligations in the aid field to provide long-term capital to these countries so they can buy from us if we are also asking other countries to join with us to correct the system and protect the United States' interests. We see three legs of the stool and they all hang together. The question is fixing the correct and fair share for the United States. The budget was scrutinized, each item, quite closely, by both our Secretary and the President. Certain amounts which had previously been requested in the aid field, particularly the international institutions, were not included in the 1974 budget, because of the need for stringency, et cetera, and we feel this is our fair share. We think it is the right amount, sir.

Mr. SHRIVER. I think my time is up.

Mr. PASSMAN. One of the finest 10-second questions and 6-minute answers I have ever listened to since I have been chairman of this committee. We were discussing that at lunch, that these witnesses are scientifically trained. They are familiar with the system by which the

committees operate. Members are given 5 minutes so they very carefully prepare themselves so they can use all the member's time and let him ask one question. But it was really a beautiful answer. Now we will recess and go answer the rollcall and come back.

[Brief recess.]

INTERNATIONAL FINANCIAL SITUATION

Mr. PASSMAN. The committee will come to order.

Mr. Secretary, this isn't the first time in my 27 years in the Congress that I find myself simply frustrated. It is almost unbelievable that the people in the Treasury Department or in the executive branch would actually have the audacity to come before this committee or any other committee of Congress and ask for the amount that you are asking for these international organizations.

Your response to Mr. Shriver's question sounded very good on the face of it. All the budget requests are submitted in the name of the President, but according to actual statistics, if you take all the statements and documents issued by the President, and when they are properly analyzed, they are created by some third, fourth, or fifth level bureaucrat downtown.

According to the computer it would take 1,293 individuals to do all the things and say all the things that are issued in the name of the President. The President can only look at these things on the surface. Time would not permit him to go into the details on all subjects.

Mr. Secretary, we are elected to represent the people. It is our responsibility to determine the amount of money that should be available for the executive branch to spend. The Constitution provides that.

As we analyze the budget request submitted by the Executive this year, the total request for foreign aid and assistance, all facets, exceeds $18 billion, at a time when we are faced with a budget deficit in fiscal year 1973 of $27.9 billion. Just since I have been a Member of Congress we have pushed the public debt from $159 billion up to $455 billion. The difference between the two has been what we have spent for foreign aid. We have dissipated about $250 billion of the American taxpayers' wealth on the foreign aid program, and it was stated before this committee yesterday that there are more poor people, more underprivileged people, more illiterate people by, I believe, 1 billion now than you had 20 years ago. Therefore, it is rather difficult to put your finger on what has actually been accomplished.

I think that you people are attempting to make fools out of this committee and the Congress by coming up and asking for an unbelievably high figure for fiscal 1974 for the international banks, plus asking us to reinstate for the Inter-American Development Bank one item alone, the $418 million that we cut out last year.

This is not the way to run the show.

As I understand the situation as it would apply to international financial institutions, you are requesting for fiscal 1974 $1,113,380,000; is that correct, sir?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. In addition sometime during the fiscal year you are going to be requesting $2,250,000,000 just to maintain the value of our past contributions to these institutions due to the recent dollar devaluation; isn't that correct?

Mr. HENNESSY. For these particular institutions the figure is $477 million of new paid-in amounts requested.

Mr. PASSMAN. I am talking about the total amount that you are going to be requesting, which includes all the international financial institutions.

Mr. HENNESSY. $2.2 billion, I think, is the exact figure, sir.

Mr. PASSMAN. Well, what is $50 million to people who don't have anything to do but give the money away? If you read the record correctly, and you should have more knowledge of it than the average individual, Mr. Secretary, as we sit here and discuss your request this afternoon we have to recognize that there are 80 billion United States dollars floating around all over the world which people want to get rid of; isn't that a statement of fact?

Mr. HENNESSY. I think at this time, sir, after the latest exchange rate realinement, there has been a dollar reflow. Fortunately the dollar is firmer and people are getting back into dollars.

Mr. PASSMAN. Let's talk then about the last few days. Am I correct that there is $80 billion?

Mr. HENNESSY. Yes, sir, you are correct.

Mr. PASSMAN. That people have?

Mr. HENNESSY. Yes.

Mr. PASSMAN. Thank you very much. These dollars were accumulated through our extravagance. People met their commitments to commerce, and we owe $80 billion that is due now. We don't have anything to pay for these dollars. We all know that some of our own American tourists abroad have to discount their dollars 10 to 15 percent to get hotels to accept them, and in other instances hotels don't want the dollars and in many other instances they are exchanging dollars for some other currency, such as the German mark.

The point is that if we don't come down out of these dream clouds about what these programs cost, we are actually going to destroy the economy of America. We have priced ourselves out of the world market through our extravagance. I think in 1971 we had our first trade deficit of $2 billion, the first since 1888; isn't that correct?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Then while everybody was talking about the great improvement we anticipated we had the largest trade deficit in the history of our country, $6.4 billion for, I believe, calendar year 1972; is that true?

Mr. HENNESSY. That is correct, sir.

AMOUNTS REQUESTED

Mr. PASSMAN. This committee wants to be responsible, but we don't want the executive to figure that the wisdom, not of the committee, but the Congress in making adjustments last year is going to be completely ignored. If that be true then the committee should be abolished, and we should take some other assignments.

It is my understanding that the way we operate in the Congress we first get an authorization bill, and subsequently there is an appropriation bill to carry out the authorization or some part of it; isn't that correct?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. And hasn't it always been the policy of the Congress to have the right of examination, and to make the determination as to what we could afford to appropriate? Isn't that one of the prerogatives of the Congress?

Mr. HENNESSY. We have never questioned that, sir.

Mr. PASSMAN. Thank you very much, sir. But you are attempting to repudiate the action of last year by asking us to reinstate every dime that we removed from these bills in this institution; are you not?

Mr. HENNESSY. No, sir, we are not.

Mr. PASSMAN. Let me point directly to the Inter-American Development Bank where you asked last year in round figures for $836 million. I believe we cut that in half; did we not?

Mr. HENNESSY. The continuing resolution cut that in half, that is right. The Senate voted, I think, the full amount, and the House voted for half.

Mr. PASSMAN. I am talking about what is on the statute books in the continuing resolution.

Mr. HENNESSY. That is correct, sir.

Mr. PASSMAN. Which is the only thing you have to go by. We gave you $418 million. The Congress, the House, this committee, the full committee and the House of Representatives in a continuing resolution provided $418 million.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. You are asking for $693 million for the Inter-American Development Bank, are you not, which includes an additional $418 million to offset the cut we made last year?

Mr. HENNESSY. No, sir; we are not. If I could explain the figures.

Mr. PASSMAN. I think I understand the figures just as well as you do. You have got them lumped together here. Let's deal specifically with the Inter-American Development Bank. You are asking the Congress to reinstate the reductions of $418 million. You are asking for reinstatement of the paid in and the callable capital.

Mr. HENNESSY. Just the capital portion, that is correct, nothing in the fund for special operations. That is our capital contribution which keeps our share in the Bank. If we lose that, we lose our control over the Bank, sir.

Mr. PASSMAN. We don't have any control over the Bank anyway. Let me tell you something about that, Mr. Hennessy. You have a lot to learn. You are a young man, a smart man with a lot of diplomacy, but you have a lot of record reading to do. Look at the Asian Development Bank. That is one of the international institutions, isn't it?

Mr. HENNESSY. It is, sir.

Mr. PASSMAN. We have a member on that bank.

Mr. HENNESSY. About 9 percent.

Mr. PASSMAN. I am talking about an individual, one man on the bank.

Mr. HENNESSY. A director and an alternate director.

Mr. PASSMAN. The alternate doesn't function?

Mr. HENNESSY. That is correct—except when the director is absent.

Mr. PASSMAN. We will always pin it down if you want to. We have a functioning member of that Bank.

Mr. HENNESSY. Yes, sir.

ADB STAFF LOAN PROGRAM

Mr. PASSMAN. Either 2 or 3 years ago you know that the President of that Bank was so arrogant he started making loans to the personnel of the Bank, and when the U.S. member on that Bank wanted to know, "Who are you making loans to, how much and at what rate of interest?" He said, that information happens to be confidential." Are you familiar with that?

Mr. HENNESSY. I believe that information was provided us and for the record subsequently. I think there was some communication there.

Mr. PASSMAN. Why not? Simply because this committee is straightening these things out but you would call that arrogance, would you not?

Mr. HENNESSY. I don't believe there was any arrogance involved.

Mr. PASSMAN. He just said you were not entitled to know. Let me read the testimony which appeared on page 209 of the fiscal year 1971 hearings.

Mr. PASSMAN. You do not know how many loans were made, to how many employees, and in what amount? That is secret information of the President only, is that correct?

Mr. ZAGORIN. The specifics.

Mr. PASSMAN. It is secret information specifically for the President of the Bank, is that right?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. That gives you an idea how arrogant these people can get when you don't have other individuals checking on them. Sure they made some correction because it is the responsibility of the committee to point this out. I believe that any paid in capital to this Bank would have to be borrowed, would it not?

Mr. HENNESSY. By the U.S. Government?

Mr. PASSMAN. Yes.

Mr. HENNESSY. I can recall this debate from last year. The U.S. Goverment has a budgetary deficit and whether we are borrowing for this or some other expenditure it is quite clear we do have to go to the market to borrow.

U.S. ECONOMIC SITUATION

Mr. PASSMAN. Let's bring it down to an individual family. I assume you are a married man with a wife and children.

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. Your responsibility is first to your own family, isn't it?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. If you want to get a little extravagant and give a few parties that would be what you would call a plus item, something which you could do without. It has nothing to do with running your own family. If you have to borrow money to give these parties, you wouldn't call that a necessary expense for running your own family affairs, would you?

Mr. HENNESSY. I wouldn't think so; no, sir.

Mr. PASSMAN. Of course the same thing is true here. Our first responsibility is to our own country.

Mr. HENNESSY. Absolutely.

Mr. PASSMAN. And its institutions. You realize the difference between the public debt in the 1940's and the public debt in 1973 is within just a few billion dollars of the amount that we have given away in foreign aid. We have gotten ourselves into a deplorable condition and I don't know whether we can bring it under control or not.

In the light of the current dollar crisis, our low gold reserves, the $80 billion held overseas, the worst trade deficit in history in 1972 of $6.4 billion, the balance-of-payments deficit of $13.8 billion, the U.S. budget deficit estimated for fiscal 1974 of $18.8 billion and with our growing public debt, do you think we should be appropriating increased funds for these international institutions, Mr. Hennessy?

Mr. HENNESSY. Yes; I do, sir.

Mr. PASSMAN. Thank you very much. Why don't they operate on a regular business basis where they would use loan repayments, interest fees, and their borrowing authorities to provide increased funds for loans instead of asking for an appropriation each year?

Mr. HENNESSY. Quite a large percentage of the money that they do lend comes from borrowings in the private banking market and they relend them at market rates.

Mr. PASSMAN. Not the part that we are examining on today though.

Mr. HENNESSY. That is correct, sir.

Mr. PASSMAN. That is exactly what we are examining on. All these abstract things make good reading but it doesn't say anything. We want to deal with the specifics. You know that we are in serious trouble in this country. Mr. Hennessy, very serious trouble, when we have to suspend worthy projects here in America, and at the same time funding full steam ahead on all foreign aid projects. We haven't found yet where there has been one dime of the funds impounded on any foreign aid program regardless of how weak the justifications are or how weak the programs.

This isn't pleasant, Mr. Hennessy. I came out of the free enterprise sector. When we go through these sessions, I don't sleep at night, because I don't know whether I have the capacity to ever penetrate the minds of some of the people downtown who have gotten us into this mess. I just don't know how we are ever going to bring it under control, unless we just defeat the entire foreign aid package, and maybe that would be a lesson to those downtown who feel that they can come back before the Congress and say:

Not only do we want a lot of new money, we want you to give us back every dime you cut out a year ago.

I don't know how other members of the committee feel. It is quite an affront. You people have a lot of nerve to do that.

INTER-AMERICAN DEVELOPMENT BANK

Let's look at the Inter-American Development Bank if we may, Mr. Hennessy. I believe it is domiciled here in Washington, D.C., is it not?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. How many board members do you have?

Mr. HENNESSY. We have one U.S. board member.

Mr. PASSMAN. Total board members?

Mr. HENNESSY. Board members, right, but of course we have a large percentage of the staff. We have an alternate also.

Mr. PASSMAN. The alternates only function in the absence of the regular board member.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Forget about the alternates. How many countries are represented?

Mr. STERNFELD. Nine board members.

Mr. HENNESSY. Representing the 24 countries.

Mr. PASSMAN. Aren't they all domiciled here in Washington?

Mr. HENNESSY. All the nine board members? Yes; they are all domiciled here in Washington.

Mr. PASSMAN. If you come up before this committee at 10 o'clock in the morning and you want, let's say, $1 billion and the committee decides we are only going to give you $500 million, I would assume that the board members then would take that matter up with the other countries, and say we are going to have to adjust our contribution to fit the U.S. appropriation, would they not?

Mr. HENNESSY. We would have to go back to the host governments.

Mr. PASSMAN. But you would go back through these people domiciled right downtown, wouldn't you?

Mr. HENNESSY. They are not empowered to do that. Under the charter, Mr. Chairman, they are not empowered to negotiate amounts.

Mr. PASSMAN. They are empowered to notify the other nations as to the action, are they not?

Mr. HENNESSY. They are certainly empowered to do that.

Mr. PASSMAN. If the United States would say, "All right, gentlemen, it is not as big a melon this year as we have had in the past so we are going to have to go back to these other nations and tell them we are not going to have $1 billion this year. It is only going to be a half billion." That would be the normal procedure, would it not, to go back out to the countries?

REINSTATEMENT OF REDUCTIONS

Mr. HENNESSY. They would go back out to the countries, but let me point out for the record, Mr. Chairman, that we have not come back. We have not affronted the committee because of the final amount which was appropriated last year. We asked for $450 million of soft funds. We got exactly one-half of that. There was another $500 million for this year. We did not, however, add on top of that the $225 that was cut last year. As you recall, in April of 1970 the United States agreed to put in $1 billion over the next 3 years when the Latins were going to put in $500 million.

Mr. PASSMAN. Mr. Hennessy, if you will pardon me, they are the donors and also the recipients, are they not?

Mr. HENNESSY. You are correct.

Mr. PASSMAN. Let's keep the record straight on that. Any time you start some kind of a skin game where I can put in $1 and draw out $3 please let me in on it.

Mr. HENNESSY. The $1 billion that we were putting in and the $500 million they were putting in were to be paid over 3 years, $100 million, $450 million, and $450 million. As it is now, this would be done, instead of over a 3-year period, because of the action of your committee, this would be done over a 5-year period which would reduce the total

from a $333 million average per year to $200 million. So you have cut. You have cut quite deeply I would say, and it has gone to a $133 million average saving. I see this, we think, as a large cut. We recognize what the Congress in its wisdom has done, and we have discussed this with our Latin fellow members. We feel the amounts for which are here today which we are justified and not being pyramided as you seem to imply.

Mr. PASSMAN. You are asking for the full $418 million to be reinstated, are you not? Just subtract $418 million from $693 million, and you get the difference. You are asking for the reinstatement of every dime we cut out plus almost $275 million more, at least the aggregate is $693 million for this one item, is it not?

Mr. HENNESSY. For this one item.

Mr. PASSMAN. What did we give you the year before, $211.7 million, didn't we?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Wait now. We gave you $211.7 million in fiscal year 1972. Two years ago you had $211.7 million. You recognized then that we were going to bring these international giveaway programs under control, so what did you do? You came out here and you asked for $836 million for the Inter-American Development Bank in fiscal year 1973, and even after this committee cut it in half, you still have in the continuing resolution almost twice what you had the previous year, didn't you?

Mr. HENNESSY. You are comparing it to 1972.

Mr. PASSMAN. That is right.

Mr. HENNESSY. That is correct.

OTHER LATIN AMERICAN AID PROGRAMS

Mr. PASSMAN. Thank you very much. Let me ask you this question. This is just one of the many programs for Latin America, is it not?

Mr. HENNESSY. It is the single greatest channel of assistance to Latin America.

Mr. PASSMAN. I say this is just one of the many programs.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Latin America, I believe, receives aid under all of the other programs that we have under the bilateral sector, do they not?

Mr. HENNESSY. Under bilateral?

Mr. PASSMAN. Yes.

Mr. HENNESSY. Many of the countries no longer qualify.

Mr. PASSMAN. I am talking about Latin America generally.

Mr. HENNESSY. Yes.

Mr. PASSMAN. What countries have been disqualified, other than Cuba?

Mr. HENNESSY. For bilateral loans?

Mr. PASSMAN. Yes.

Mr. HENNESSY. Argentina, Chile, Mexico, Venezuela——

Mr. PASSMAN. They switch over to the Export-Import Bank, do they not? You know Chile is a Communist country and so is Cuba.

Mr. HENNESSY. Fine.

Mr. PASSMAN. Let's not mix it up.

Mr. HENNESSY. I don't think the Export-Import Bank is charity. That is promoting our exports.

Mr. PASSMAN. I believe as we sit here and talk this afternoon if the Congress in its wisdom should decide there would be no foreign aid appropriated this year, I believe just for Latin America there is over $5 billion in the pipeline to be disbursed, isn't there?

Mr. HENNESSY. I don't have that figure, sir. I don't know how much is in the pipeline.

Mr. PASSMAN. Let's give it to you. It is a good figure to have in mind, because we just pyramid these accounts.

Mr. LONG. I would think you would know that, because I would think that you couldn't run your operation without knowing what the general picture is.

Mr. HENNESSY. On undisbursed loans, I have it for the institutions but not for the Export-Import Bank or the bilateral aid program.

Mr. PASSMAN. The total amount in the pipeline according to the last record, December 31, 1971, was $5,339,212,180. That is the total amount. What is causing us concern is that most of the countries in Latin America are eligible to draw out of all these different accounts. What we want to do, Mr. Hennessy, is to bring it under control.

We have a lot of respect for you people, but I think you ought to have the same respect for the Congress, in the sense that we have the right to decide how much money the American taxpayer can afford to borrow for you people to give away.

Mr. HENNESSY. No quarrel with that whatsoever.

Mr. PASSMAN. That is good as long as you leave that decision with this committee, which you have not done in the past. That makes us very happy. You said you are going to get more money but you indicated you are going to allocate it over a longer period of time, therefore the average funds provided each year have been cut down.

Mr. HENNESSY. That has been the effect of what has actually happened, sir. That is history and that is fact.

HISTORY OF IDA APPROPRIATION

Mr. PASSMAN. Is this the history of IDA? Let's take the International Development Association. Just a few years ago they came in, possibly with hat in hand, and said, "We would like to have $61 million per year for 3 years for IDA." We looked at it with a suspicious eye, but being an international organization we said OK, we would go along with it, because you have previously made certain commitments. You remember it started at $61 million.

They became a little bit more brazen. They followed up then and came in saying, "Now we want $104 million per year for 3 years."

I believe that is the history of it, so the committee reluctantly went along with the IDA request of 104 million for 3 years. Then you got more brazen and came in saying we want $160 million for 3 years and we went along with that. I believe a year ago you doubled that and came in and asked for $320 million a year, did you not, for 3 years?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Wouldn't you think that is why we are in such a terrible mess with our trade deficit and our balance-of-payments deficit?

Mr. HENNESSY. I think most of the aid, particularly in the IDB, is tied so when we give them a dollar on a loan they buy U.S. goods with it so that doesn't affect our balance of payments.

Mr. PASSMAN. Aren't you asking for the $225 million again for the fund for special operations that applies to the Inter-American Development Bank?

Mr. HENNESSY. No; we are not asking. The only thing that is back there as I explained at the beginning is the capital. In other words, our share in the Bank, how much we own—like you own shares in General Motors. The U.S. share is a function of how much of the capital we own. Last year, we asked for $336 million, which would keep our share at 39 percent, which gives us a veto over the soft loans. The Congress cut that in half through the continuing resolution, and we are coming in this year's request for the 1974 budget, there is the other $118 million which would allow us to maintain our share. If we don't put up our share, the Latins and Canadian portion goes up, and consequently, we may lose the veto. I think we can't have it both ways. I don't think we can be reducing our share of the capital at least and losing our control and our veto.

Mr. PASSMAN. Mr. Hennessy, it follows nevertheless that the other donors are the full recipients of these funds, what they put up plus what we put up, isn't that true?

Mr. HENNESSY. The Canadians are now members and the other 12 or 14 Europeans are now——

Mr. PASSMAN. That is not the question. I say, aren't the donors in the Latin American countries also the recipients?

Mr. HENNESSY In the Latin American countries, that is true; yes.

Mr. PASSMAN. Canada comes in for a little tidbit. That is something brand new, isn't it?

Mr. HENNESSY. A year ago; that is correct.

Mr. PASSMAN. I don't like to mix these up because you will be testifying for IDA also, will you not?

Mr. HENNESSY. Yes; I will, sir. At some point, Mr. Chairman, I would like to read into the record or submit for the record on the question of the bilateral and multilateral which is something that has been of concern to you and how we balance those—a letter to you which Dr. Hannah has given us.

[Discussion off the record.]

Mr. HENNESSY. I think he makes quite a strong case for the complementarity of the two programs.

Mr. PASSMAN. Would he have any alternative?

Mr. HENNESSY. I believe philosophically. There is no gun at John Hannah's head. Believe me, he is an individual who stands up for what he thinks is right. I don't think he would put his John-Henry on it if he didn't believe it.

Mr. PASSMAN. I wouldn't say a thing to offend this great man. He is my personal friend but he has one vote on the board. He is one of the finest men I ever knew and I have never questioned his integrity, I will mark certain pages in the hearings which show how little attention they pay to Dr. Hannah if he says categorically it will be this way, and he happens to take a trip, goes over Rome on some business and while he is gone then they go in and make substantial obligations on the very account that he said wouldn't be made. You people work together very

nicely down there. I give you credit for that. This is a full time job for you, isn't it?

Mr. HENNESSY. It is not a full time job for me.

Mr. PASSMAN. Your job with the Treasury Department is full time, isn't it?

Mr. HENNESSY. Yes, 12 hours a day.

Mr. PASSMAN. I put in just about that 7 days a week. I have to do a lot of things other than foreign aid. Possibly I have 5 percent of my time and you have 100 percent of your time to spend on foreign aid so you are ahead of us to start with.

I think possibly we had better just go around the table to allow other members to question it this time. Then we will return to the regular questioning. I yield to Mr. Shriver.

Mr. SHRIVER. You mention that the United States has a positive trade balance with the less developed countries. I agree this is a little known fact, and perhaps it might help if you would provide details on that for the record.

Does this include all elements of resource exchange between the United States and the less developed countries?

Mr. HENNESSY. The positive trade balance of the United States with the less developed countries includes all elements of resource exchange. U.S. exports to these countries have grown from $6.5 billion in 1961, to more than $15 billion in 1972 and the trade surplus has averaged more than $1.0 billion each year and has been as high as $2.4 billion. In 1972, at a time when the United States was running an overall trade deficit with the rest of the world taken as a whole, we still achieved a trade surplus with the developing countries of $500 million.

BUDGET IMPACT

Mr. SHRIVER. Your total request for fiscal 1974 is $1,243 million. Is that correct? Your discussion of the real budgetary impact of such an appropriation is confusing, and I am sure it will be to the general public when these hearings are printed. Perhaps you could provide something for the record in layman's language which takes each of these items apart and tells what its effect would be. Do a good job on this—define the terms.

Mr. HENNESSY. Our total request for international financial institution appropriations in fiscal year 1974 is $1,234,380,000. Although the money would be appropriated in this fiscal year and—in fact, committed to the institutions—it would not all be spent immediately in the sense of being disbursed in cash right away from the U.S. Treasury, and a substantial portion of it is not expected to be spent at all.

Our request is for two types of resources: Paid-in and callable. Paid-in capital is intended to provide on a definite schedule cash resources for operations. It is for the most part provided to the institutions in the form of non-interest-bearing letters of credit to be drawn only as needed by them to meet their loan disbursements. In this way, the real budgetary or cash outlay impact for the United States for this part of the appropriation is delayed for several years. A small part, $14.6 million in fiscal year 1974, is to be made available in the form of cash.

In addition, another important part of the appropriations request is for callable capital contributions instead of paid-in capital contri-

butions. Callable capital may be regarded as a guarantee provided by the subscribing country which permits the institution to borrow in private markets. Callable capital subscriptions are likely never to be drawn down and would have no real budgetary or cash outlay impact because they would only be needed if the institutions could not cover the interest or principal payments on their funded debt.

For the entire appropriation request, $14.6 million would be disbursed in fiscal year 1974, $954.6 million would be disbursed in subsequent years, and $264.8 million would not be disbursed at all unless called to cover funded debt obligations of the institutions.

These amounts are broken down by institution as follows:

[In millions of dollars]

	Fiscal year 1974 budgetary impact	Subsequent year budgetary impact	No budgetary impact unless called
ADB	14.6	109.6	96.8
IDB	(1)	525.0	168.0
IDA	(1)	320.0	(1)
Total	14.6	954.6	264.8

[1] None.

ASIAN DEVELOPMENT BANK

Mr. SHRIVER. You mention that because the United States has not contributed $100 million to the special funds of the Asian Development Bank, U.S. firms cannot bid on projects financed by that Bank. The chairman and I received hand-delivered letters yesterday from a large American firm about this problem. Would you comment on that further, especially on the balance-of-payments effect?

Mr. HENNESSY. It should be noted that the special fund request currently before the House Appropriations Subcommittee on Foreign Operations is a tied request, that is, the appropriate special funds shall be used only for purchases of goods and services from the United States. Thus there will be no adverse balance-of-payments impact from appropriation of the funds in question. The problem raised in the letter you received—that is, the ineligibility of U.S. firms to bid on certain projects—will be solved if the pending special fund appropriation request is approved and we contribute to the special fund. Thus, the appropriation of these funds should have a longer run positive impact on our balance of payments, since U.S. firms would then be able to compete on ADB projects and establish themselves and their products in several Southeast Asian countries. If the United States is successful in bidding on phase 1 of a multiphase power project in Indonesia, for example, it has a far better chance of having U.S. equipment selected for the other phases of the project. Replacement parts alone would enhance the U.S. trade balance over time.

Mr. SHRIVER. You say the voting power of the United States was automatically reduced from 16 to 8 percent in the Asian Bank due to our lack of participation. What are the practical effects of this reduction? How does this really affect our national interests in that area?

Mr. HENNESSY. The practical effect of this reduction is reduced U.S. voting power on issues brought before the Board, a matter of no small

consequence since ADB loans have been going predominantly to major U.S. friends and allies in Asia. For example, from total ordinary capital loans of $723 million, the ADB has loaned $198 million to Korea, $105 million to the Philippines, $100 million to the Republic of China, $75 million to Thailand—a total of $478 million or 66 percent of all ADB ordinary capital loans. If we include loans to Singapore, which is becoming increasingly important to the United States in Southeast Asia, the lending figure rises to $582 million or 80 percent of total ADB hard term lending.

More important than the actual percentage reduction, however, is the lessening of U.S. influence in the Bank far beyond its 8-percent drop in voting power. Even though the United States had maintained parity with Japan in the Bank of 16 percent of the vote, its influence has been far greater than that figure would imply. The Europeans look to us for leadership; the lesser developed countries do so as well—especially our friends such as Korea, the Philippines, et cetera; and the Japanese are looking to us increasingly for a reassertion of our interest in the Bank. Given these considerations, unless we reestablish our voting power, we can well expect our influence in the Bank to decrease drastically beyond that implied by a voting share of 8 percent.

IDA CONTRIBUTION

Mr. SHRIVER. I am glad to hear your comment that you are insisting the U.S. contribution rate to the International Development Association should be reduced. I believe our contribution rate was 40.2 percent through fiscal 1972. Is that correct? What do you foresee in this regard?

Mr. HENNESSY. Our initial share when IDA was established was 43.1 percent. More recently prior to the third replenishment, the proportionate share of U.S. contributions to the International Development Association was 40.2 percent. When the third replenishment is taken into account, this figure is reduced marginally to 39.7 percent. In our discussions with other part I (industrial) countries on a fourth replenishment of IDA's resources, we have clearly indicated that a substantial reduction must be made in the U.S. proportionate share of contributed resources. Our thinking in this regard is that a "fair share" for us now lies between 30 and 35 percent, perhaps one-third. This reduction would reflect not only our present balance-of-payments difficulties but also the greatly strengthened economies of other part I countries since the period immediately after World War II.

ADB SPECIAL FUNDS

Mr. SHRIVER. You ask for our views on the proposed contribution of $150 million in two installments for the new special funds resources for the Asian Bank. This is to be tied to U.S. procurement, is it not?

You say this would make our contribution approximately 28 percent of the total. This compares with about 20 percent for the paid-in and callable capital funds of this bank, is that correct? Why should we put up a higher percentage for the fund for special operations?

Mr. HENNESSY. It is correct that the first $100 million, the voluntary contribution around which an Asian Development Fund would be built, would be tied. The additional $50 million contribution would, according to the package proposal, be open to procurement among all

the contributors to the Fund. The $150 million U.S. contribution to the Bank's special funds would represent approximately 28 percent of the new contributions which others are now prepared to make available, and thus would be less than our initial ordinary capital contribution relative to other donor countries. When all previous special funds contributions by other donor countries are taken into account, the U.S. share is 20 percent of the cumulative total.

Mr. SHRIVER. In your response to the GAO study, you refer to the "five NAC agencies" and "IFI-financed projects." Those abbreviations don't mean much in our record. What are they?

Mr. HENNESSY. The "five NAC agencies" are the Treasury Department, State Department (including AID), Commerce Department, Export-Import Bank and the Federal Reserve Board. Staff officials of these agencies meet weekly to appraise project proposals put forward by the multilateral lending institutions and to advise, through the heads of their agencies, the Secretary of the Treasury on what position the U.S. Government should take on each proposal. The National Advisory Council is, therefore, an interagency coordinating mechanism within the U.S. Government in which the views of various departments are brought to bear on the resolution of a given issue or problem. In addition to the five regular member agencies listed above, other agencies participate when matters of interest to them are being discussed including the Office of Management and Budget, the Department of Agriculture, the Council of Economic Advisers, et cetera.

"IFI-financed project" is a shorthand method of referring to projects financed wholly or in part by an international financial institution (that is, International Bank for Reconstruction and Management, Inter-American Development Bank, Asian Development Bank).

BURKE-HARTKE BILL

Mr. SHRIVER. You say these international lending institutions have been instrumental in mobilizing private investment in less-developed countries, and that private investment is vital to their development. I am sure you are familiar with the so-called Burke-Hartke bill, which would make the enterprises operating in these countries pay the full tax due both in the country where they operate and in the United States, even before any earnings are remitted. What effect would this have in these less-developed countries? What effect would it have on our own trade balance?

Mr. HENNESSY. Implementation of the Burke-Hartke proposal to eliminate the tax referrel and credit provisions for foreign source income would have extremely serious effects on both the United States and less-developed countries (LDC's).

The United States has almost $25 billion in private direct investments in the LDC's of which about one-half is in mining and petroleum. Direct investment in these countries contributes to the U.S. balance of payments by way of repatriated earnings, dividends, interests, royalties, and fees. In 1972, the gross inflow from these sources was $4.2 billion. After allowing for investment outflows, there was a net inflow of $2.6 billion. Direct investment outflows from the United States are also an important source of capital to the LDC's as evidenced by the fact that in 1970 approximately one-half of the $3.5

billion net direct investments by the industrialized donor countries came from the United States.

As a developed country, the United States bears a responsibility for exporting real sources to the LDC's. It accomplishes this by maintaining a net export position of goods and services with these countries. In 1972 this surplus was almost $4 billion. If the Burke-Hartke tax proposals were adopted this would probably lead to a virtual cessation of new foreign direct investment and may even lead to the liquidation of existing investments. Such a result would upset the existing economic relationship between the United States and the LDC's and would quickly lead to increased pressure to offset the decrease in private capital flows by increased government aid.

Foreign direct investment tends to generate exports from the U.S. parent to its foreign affiliates. Several studies show that in recent years the net export trade position of U.S. parents has been rising with their overseas foreign affiliates, at a time when the overall U.S. trade position has deteriorated. Major impediments to foreign direct investment—such as the Burke-Hartke tax proposals—would place this favorable trading relationship in jeopardy.

While relatively free flows of investment capital benefit both the host and source country, there are instances where the flow of investment may be distorted by artificial incentives such as extended "holidays" from local taxes. There are also certain cases where U.S. companies taking advantage of U.S. foreign tax deferral undertake foreign investments specifically for the purpose of exporting products to the United States—for example, the "runaway plant" situation. And there are other situations in which U.S. companies design their foreign operations so that the U.S. Treasury bears the burden when they lose money, while foreign treasuries receive the benefit of taxes when they make money. The President has recognized these abuses in his message accompanying the Trade Reform Act of 1973, and indicated his plans to submit proposals to deal with them.

INTER-AMERICAN DEVELOPMENT BANK

Mr. SHRIVER. Turning to the Inter-American Development Bank, Mr. Sternfeld, you say the Bank has initiated a program to channel more of the soft loans to the nine countries in your region which have been determined "least developed." What are these countries?

Mr. STERNFELD. These countries are: Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, and Paraguay.

Mr. SHRIVER. You are aiming at a higher proportion of the soft loans for these countries. What is your goal in terms of percentage?

Mr. STERNFELD. The goal for 1972, the first year of the new policy, was a minimum of 30 percent. In succeeding years, it is expected that these countries will continue to increase their utilization of FSO. The 1972 goal was sharply exceeded, with the final figure reaching 49.6 percent.

Mr. SHRIVER. Why should the relatively developed countries continue to receive any of this soft loan money?

Mr. STERNFELD. Continued use of the fund for special operations is justified in order to encourage highly important but slow-yielding

activities in the expectation that Bank financing will augment country development efforts in these fields. The relatively developed countries will continue to be eligible for FSO funds, but their proportion will progressively decrease over a 3-year period, and the terms harden. Also, the types of projects eligible for FSO in the more developed countries will be limited.

FSO REPAYMENT CONDITIONS

Mr. SHRIVER. Starting this year, new soft loans will have to be repaid in the currencies lent. This means dollars for the most part, does it not? What effect will this have on the ability of the nine least developed countries to participate in the program?

Mr. STERNFELD. That is right, sir. While FSO loans are made in both dollars and local currency, the dollar portion is the larger, and therefore the new policy will result in greater dollar repayments. With regard to the effect of this new policy on the nine lesser developed countries, we believe that in the long run it will be in their own interest. This is because, even though the countries will have to pay back in dollars, thereby adding to their foreign external debt service requirements, nevertheless these are very long-term loans—up to 40 years for the poorer countries. Thus, the burden is spread out over a long period. Meanwhile, because other countries will be paying in dollars, the Bank will not be receiving unconvertible resources, rather such repayments will be used on a revolving basis to fund projects in other countries. Since the more developed countries' portion of the FSO will be reduced to 20 percent by 1974, and because their amortization periods are shorter (only up to 25 years), the benefits to lesser developed countries substantially outweigh the disadvantages.

ORGANIZATIONAL CHANGES

Mr. SHRIVER. On page 7 you note the need for further organizational tightening in the Bank. Expand on that and what actions you foresee to eliminate these problem areas.

Mr. STERNFELD. Any organization is in need of review. The major changes primarily affected the operations, project analysis, and financial departments. I foresee further reforms affecting the processing of technical assistance, the Office of the Controller, the administrative department, and the Program Adviser's Office. The changes will be aimed at clarifying responsibilities and maximizing the productivity of the staff.

PROJECT SELECTION

Mr. SHRIVER. In conclusion you refer to the black notebooks which were furnished the committee listing project proposals you will be considering this year. You say new loans will come from "this list and additional applications which may come during this year." In other words, there is no way we can know how you will use the appropriations requested in this budget, is there? We have an outline of projects you might consider, but then again, you might not.

Mr. STERNFELD. The committee can be sure that, based on last year's experience, there will be very few changes made from the list of projects under Bank consideration, which we have submitted. To illustrate

this, let me tell you about what has happened to the list of 96 projects which was submitted to the committee on March 1, 1972, at the time of the last hearing. Of those 96 projects, 39 were subsequently approved by the Board, 37 continue to be listed because the Bank has not yet concluded the necessary evaluation and analysis, and 20 have been dropped from further consideration at this time because they were either not consistent with appropriate Bank or country priorities, or due to the conclusion that they were not feasible from technical, financial, economic, or administrative points of view. There were only 6 new projects that were approved subsequent to the submission of last year's list which were not included on that list. These six loans were:

Mexico—Small and medium industries for $10 million.

Costa Rica—Preinvestment studies for $2.3 million.

Bolivia—Roads for $10 million.

El Salvador—Hydroelectricity for $38.1 million.

Dominician Republic—Rural electricity for $7.4 million.

The foregoing projects when submitted to the Bank, had already been extensively studied, thus permitting Bank staff to process and submit them to the Board during the same year.

CHILE

Mr. SHRIVER. Your notebook shows four loans under consideration for Chile at a total cost of $200 million. This will be very hard to sell if we recommend these funds to the House of Representatives. What would you offer in support of these loans?

Mr. STERNFELD. There has been no loan to Chile approved in over 2 years. Given Chile's current position on its international debt and its other actions, there are serious questions on Chile's creditworthiness. At the minimum, Chile would have to meet the creditworthy test before its loan applications could be supported.

Mr. SHRIVER. The Gonzalez amendment requires the U.S. Executive Director of the Bank to vote against any loan or utilization of funds for a country that has nationalized, repudiated, or nullified existing contracts, or imposed discriminatory taxes or other exactions and U.S.-owned property. Have you exercised this authority this year? Would you exercise it in the case of loans to Chile?

Mr. STERNFELD. There has been no loan presented to the Board to this time where the Gonzalez amendment would apply. The amendment provides that under the conditions you cited a negative vote would be required unless the President determind that (1) an arrangement for prompt, adequate, and effective compensation had been made, or (2) the parties have submitted the dispute to arbitration, or (3) good faith negotiations are in progress. In relation to Chile, the determination would have to be made at the time a loan was before the Board whether any of the above provisions were present or not before determining that the United States should not vote no on loans to Chile.

CANADA MEMBERSHIP

Mr. SHRIVER. Canada recently entered into full membership in the Bank, I understand. They will not be eligible for loans, will they?

What does this mean in terms of additional resources for the Bank?

Mr. STERNFELD. Canada doesn't intend to borrow from the Bank. In joining the Bank, Canada agreed to subscribe, in terms of U.S. dollars of the weight and fineness in effect on January 1, 1959, a total of $242,680,000 to the Bank's ordinary capital ($40 million to the paid-in capital and $202,680,000 to the callable capital) and to contribute $60 million, in terms of dollars of the same weight and fineness, to the Fund for Special Operations. Payments to the paid-in capital and the Fund for Special Operations are being made in Canadian currency in three equal installments, the first of which was paid at the time the instrument of ratification was deposited.

The Canadian Government also agreed to contribute to the Fund for Special Operations all repayments made on loans which the Bank has made with the resources which it administers for the Canadian Government under an agreement entered into December 4, 1964. The total contributions made by Canada under the agreement amount to $74 million Canadian.

MEXICO-UNITED STATES RELATIONSHIP

Mr. SHRIVER. Mexico received loans totaling $58 million from the soft loan window in 1972, and that country is being considered for new loans of $87 million. I am concerned about recent reports that Mexico attempted to get Canada to join in an anti-U.S. economic agreement. While Canada reportedly refused at this time, this is not a healthy development for the United States. Would you comment?

Mr. HENNESSY. I do not know of any specific anti-U.S. economic agreement which Mexico has urged Canada to join. However, as you know, President Echeverria recently completed a 29-day world tour, the two principal objectives of which were: (1) the enhancement of Mexico's image as a leader of the third world, including the gaining of acceptance for a charter of the economic rights and duties of states proposed by President Echeverria in his address at UNCTAD III, and (2) the expansion and diversification of Mexico's foreign trade and investment. The proposed charter of economic rights and duties contains some broadly stated principles, but, in any event, it would be incorrect to interpret it as an "anti-U.S. economic agreement."

We have no record of any efforts made by President Echeverria to get Canada to join in an anti-U.S. economic agreement during his state visit to Canada. In his address to the Canadian Parliament, he drew several parallels between Canadian and Mexican experience in economic, political, and social growth, but made no specific referral to the United States. In discussions with Prime Minister Trudeau and senior Canadian officials, we understand that President Echeverria did not advocate any animosity against the United States, but stressed Mexico's desire to reduce its dependence on, and trade with, the United States by increasing and diversifying its exchanges.

DOLLAR DEVALUATION

Mr. SHRIVER. The appendix of your black book mentions the effect of the two recent devaluations of the U.S. dollar and other currencies. Would you tell us more about this—what the actual cost is to the

United States, and so forth? Perhaps it's too early to tell about the second devaluation.

Mr. STERNFELD. The 1972 devaluation will cost the United States $41 million in paid-in capital in the ordinary capital resources of the Bank and $110 million in the fund for special operations. This will be disbursed over a long period. In addition there is a contingent liability with no cost anticipated of $187 million.

Mr. SHRIVER. What have been the effects of the adoption of the precommitment policy under which the Bank is gradually reducing the amount of cumulative liquid resources from 100 to 50 percent of the value of commitments contracted? In your view, does this endanger the stability of the Bank?

Mr. STERNFELD. This policy has only been in effect 1½ years and therefore it has had only a slight impact. For the ordinary capital where funds are raised at varying costs in the world market, I don't believe it endangers the stability of the Bank. In fact, I believe this is sound financial policy not to stockpile cash which comes at high cost for expenditures which may not take place for 4–7 years.

Mr. SHRIVER. Last year, I was informed the multiplier effect of multilateral financing results in U.S. funds channeled through the Bank accounting for 26 cents of each $1 worth of project costs. Is that figure correct? Place a breakdown in the record of where the other 74 cents comes from.

Mr. HENNESSY. On a cumulative basis, for every dollar of total IDB project costs, U.S. contributions through the IDB have accounted for 26 cents. The remaining 74 cents is broken down as follows:

(a) Latin American counterpart funds	$0.64
(b) Latin American contributions to IDB	.06
(c) Nonmember contribution to IDB	.04
Total	.74

BUDGET REPORT

Mr. SHRIVER. Your justifications state that no budgetary outlay will result in fiscal 1974 from this appropriation request. Even so, this commits U.S. Treasury funds so that they could not be used for domestic programs, does it not?

Mr. HENNESSY. The fiscal year 1974 budgetary outlay expected from the $1.2 billion appropriations request for international institutions amounts to $14.6 million. This amount includes $9.6 million for the Asian Development Bank's ordinary capital and $5 for its special funds. The remaining amounts ($955 million for disbursement in subsequent years and $265 million for contingent disbursement if needed by the institutions to meet bond-holder obligations), are either letter of credit obligations or contingent obligations in the form of guarantees by the U.S. Treasury. This deferred or contingent character of the obligations is in marked contrast with much of the rest of the budget for fiscal year 1974. For illustration of this point, of $288 billion in new appropriations being sought, $265 billion are expected to be disbursed by the Treasury in the same year. Since the vast majority of IFI disbursements are not made in fiscal year 1974, they cannot be construed as displacing domestic disbursement in fiscal year 1974.

U.S. SHARE OF CONTRIBUTIONS

Mr. SHRIVER. Would you show for the record the U.S. percentage of these individual funds since their inception?

I understand the U.S. share of the fund for special operations will be two-thirds; is that correct? This is a reduction, is it not?

Mr. HENNESSY. I will place that in the record.

[The information follows:]

Table of United States cumulative subscriptions to multilateral lending institutions expressed as percentage of total contributions

U.S. subscription (Rounded to nearest whole number)

Institution:	*Percent*
IBRD	26
IDA	40
IDB (ordinary capital)	40
IDB (FSO)	74
ADB (ordinary capital)	9
ADB (special funds)	None

In the current replenishment of the Fund for Special Operations of the Inter-American Development Bank, the proportionate U.S. share was two-thirds. This particular share is reflected in the cumulative subscription share of 74 percent.

FSO FUND SHORTAGE

Mr. SHRIVER. The Fund for Special Operations had, as of December 31, 1972, $852 million in uncommitted funds. The justifications state that if presently planned loans are made, these funds will be exhausted during the fiscal quarter of this calendar year. They could hold up on these new loans, couldn't they, just as many domestic plans are being delayed because of our budgetary problems? We may have a commitment, but it can be stretched out, can it not?

Mr. STERNFELD. We have already stretched out our contributions. The 1970 plan was to seek $1.5 billion over 3 years—$1 billion U.S., $500 million others. The United States has only supplied one-half of its share to date, $275 million. The $500 million requested will leave a shortfall of $225 million. The result has been inability of the Bank to work with potential borrowers on their projects with some basis of financing assurance. The level of lending for worthwhile activities has dropped in comparison with 2 years ago.

Mr. SHRIVER. I just received a copy of the Bank's 1971 annual report—it is dated March 1972. Why can't the members of this subcommittee receive these reports well before these hearings? We should have the 1972 report now.

Mr. STERNFELD. I am sorry that you received a copy of the 1971 report so late. The report is released to the public the week of the annual meeting of the board of governors after they have approved it. The 1972 report will be released during the week of May 7, 1973.

EXTERNAL INDEBTEDNESS

Mr. SHRIVER. Do you consider the current external indebtedness and its service excessive for these Latin American countries? That answer might be different for each individual country.

Mr. HENNESSY. Latin America's total external public debt outstanding, including undisbursed portions, amounted to approximately $21.3 billion at the end of 1971, an increase of 9.3 percent over 1970. Debt service on interest and amortization rose by 2.1 percent in 1971, reaching $2.7 billion—or 13.8 percent of Latin America's current account receipts—equivalent to the average for 1960–70 period.

Whether these levels of Latin American external indebtedness and debt servicing are "excessive" depends on each individual country's capacity to reconcile competing claims on its resources in favor of debt servicing and high rates of economic growth, while the shape and pattern of economic development varies widely among Latin American countries, each country's capacity to meet its external debt obligations is dependent on many factors, such as its planned rate of economic growth, the international market for its exports, its internal economic policies, its balance of payments and debt management policies, its ability to mobilize local savings and investment, its international "creditworthiness," and so forth. Because of the multiplicity of factors involved in determining a country's capacity to service its external debt, and because these factors vary substantially among Latin American countries, it is difficult to generalize about the "burden" or "excessiveness" of Latin America's external public indebtedness.

There are, however, several conventional indicators which are widely used—with the above caveats—to assess a country's external debt position and its vulnerability to a potential external debt crisis. For example, in assessing debt prospects of the 80 developing countries whose external debts are monitored by the World Bank, the Bank draws a distinction among three categories of debtor countries. The first is composed of those countries whose overall volume of debt is low and whose debt-service obligations present no major difficulties. The second is that of countries whose debt and debt-service is large, and capacity to service the debt fundamentally limited. The third group consists of countries whose debt and debt-service is large, but whose prospects for servicing their debt are fundamentally sound, apart from the possibility or likelihood of temporary difficulties occasioned by the "bunching" of short-term liabilities or by transitory declines in exports.

Very few, if any, of the Latin American countries fall into the second category, despite the high levels of debt and debt-service in the region. The more typical situation is that of the third category, representing perhaps one-half of the total outstanding debt of Latin America—excluding Chile. In other words, most Latin American countries do not face any long term or "structural" debt servicing problems. Continued high levels of debt service payments may lead to temporary debt servicing difficulties, if there are significant declines in export earnings, shortfalls in domestic resource mobilization and policy actions resulting in higher levels of imports. But there is no structural characteristic of the Latin American economies which would indicate the inevitability of a chronic debt servicing problem. Most of these countries should be able to avoid debt renegotiations or payments crises as long as they pursue sound economic policy and satisfactory debt management. But others may require debt relief from their creditors, and more active over-all credit monitoring in the future on the

part of lending governments. It may be useful to point out that the U.S. Government has participated in 23 multilateral debt reschedulings since 1956. Of these, nine involved four Latin American countries: Argentina, Brazil, Chile, and Peru.

Probably the most conventional measure used to evaluate the strain imposed on a country's balance of payments by external debt servicing in the shortrun is the debt service ratio. This ratio measures the proportion of export receipts absorbed by contractual debt service payments in any year.

The higher the ratio, the greater is considered to be the pressure of debt service on the debtor's economy, particularly in the event of a downward movement of the country's foreign exchange earnings. However, because the debt service ratio combines only two factors out of the multiplicity of those involved in determining a country external debt servicing capacity, it has proven impossible to identify a "critical" level of the ratio by which one could say the debt service is "excessive."

In the table submitted, it can be seen that about half of the Latin American countries had debt service payments equivalent to more than 10 percent of their exports.

[The table follows:]

Ratio of external public debt service to exports	*Percent*
Chile (above)	25
Argentina, Mexico, and Uruguay	20–25
Brazil	15–20
Bolivia, Colombia, Nicaragua, Paraguay, and Peru	10–15
Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Panama, and Venezuela (below)	10

Mr. HENNESSY. The limitations of the debt service ratio as an indicator of debt servicing difficulties are readily apparent insofar as among those countries with ratios above 15 percent, only Chile and Uruguay are presently experiencing serious strains from their debt service obligations, while Argentina, Mexico, and Brazil are not. With responsible and effective fiscal and monetary management and continued availability of long term financing, Latin American countries should be able to avoid serious debt service problems which might jeopardize their longrun growth and development.

Mr. SHRIVER. In looking through this annual report, I note the wide differences in the rates of economic progress for individual countries. This comes as no surprise, but what do these figures over the years teach the administrators of the Bank? How are your policies changed to reflect past successes and failures?

In a related question, the Bank has always emphasized agricultural projects, yet this is still the most disappointing area as far as real per capita progress is concerned. What changes has the Bank made when figures such as these have become available?

Mr. STERNFELD. The rates of economic progress of the member countries are directly reflected in changes in policies and in the type of projects financed. For example the specific targets established for FSO funds for the poor countries is a reflection that these funds should go

where the need is greatest and where the country has been taking appropriate measures of its own. Where countries have had rapid rates of growth, sizable increase in their reserves, they can and are relying on the hard-loan window, the ordinary capital, for their financing needs of major development projects.

The Bank in the agricultural area has had to make shifts to meet the realities in the member countries. It has been working with the FAO and others to get at the bottlenecks, poor marketing, weak credit services, better research.

Mr. PASSMAN. I yield to Mr. Long.

CUTS IN DOMESTIC PROGRAMS

Mr. LONG. I notice that in 1974 you want $693 million, and it was $418 million last year. We have had all these impoundments, all these cutbacks in all our domestic programs. Can you explain why your International Development Association should be asking for a big increase when we are actually cutting back on so many important domestic programs, conservation, reforestation, research into turning coal and wood into oil, vocational development, pollution? I could just go on and on, child care. Why can't you take your share of the cuts?

Mr. HENNESSY. Congressman Long, I realize it is a difficult question. Believe me, in approaching the figure this year, I think we should look at the overall program. Cuts were made. We did not put back the $225 million, for instance, in the IDB FSO which was cut out last year. Also, there was a new bank, a new commitment that was being considered. Actually prior Presidents and our present one had told the Africans that we would be trying to do something for them. It was felt, however, that that could not be the case this year.

Mr. LONG. I think a lot of domestic——

Mr. HENNESSY. There have been cuts upward of $300 million.

Mr. LONG. I see $418 million for fiscal 1973, and $693 million for fiscal 1974. That is in plain print. That is an increase of more than 50 percent.

Mr. HENNESSY. That is correct.

Mr. LONG. But we are cutting back on all kinds of domestic programs.

Mr. HENNESSY. Right. It depends on what base you use for the cut. For instance, as I mentioned, the United States had agreed publicly—of course subject to congressional approval—to put in $100 million the first year, $450 million the second, and $450 million the third.

Mr. LONG. That is an interesting question you raise. How does the United States agree to something without consulting Congress?

Mr. HENNESSY. We do have the authorization for $1 billion in this particular case, but there is no legal commitment.

Mr. LONG. The appropriation committee——

Mr. HENNESSY. I think we have clarified this.

Mr. LONG. You should make that clear and not go around talking about our pledging.

Mr. HENNESSY. It should be clear in the record, yes.

Mr. LONG. You state that multilateral institutions have "good organization, management and staffing, and high quality of analysis."

A GAO report of August 22, last year, on the Inter-American Development Bank speaks of "a number of deficiencies reportedly existing in the international banks' organization, administration, and operating procedures, including inadequate project planning and execution."

I am wondering what your answer is to this, and what evidence you have to support your claim that so far as you are concerned, you have good organization, management, and staffing. The view of the General Accounting Office, which is the watchdog agency of Congress, feels they have come up with some pretty serious——

Mr. HENNESSY. We went into this before the House Foreign Affairs Committee in some detail. Let me summarize what our position is on this. Any GAO report, of course, looks for deficiencies, and any organization, whether it is the U.S. Treasury Department or General Motors, can always improve. We are not saying we are perfect. What we are saying is that the market imposes a discipline on these institutions. These banks go out and borrow on the market. They have triple A rated bonds. The market opinion is that they are well run, they are financially prudent organizations.

Mr. LONG. You are speaking in very general terms.

Mr. HENNESSY. Right.

Mr. LONG. We have here from the GAO very specific statements. I would think in answer to specific criticisms we should have specific answers.

Mr. HENNESSY. Let me say on the specific point which you mentioned there, Mr. Long, on the organization they had an outside management study by Booz Allen. The consultants came in and looked at the Bank and their report has now been implemented. There are deficiencies in any organization. They have improved that. They made four specific recommendations on the Bank and those four have now been implemented.

Mr. LONG. Will you put in the record what those recommendations were?

Mr. HENNESSY. Yes; I will be glad to.

Mr. LONG. And what the implementation was. Not in general, but very specific language. And would you put in what Booz Allen's fee was for doing this?

Mr. HENNESSY. If that is available, of course.

[The information follows:]

The GAO's major recommendations were:

A. RECOMMENDATION

The United States should sort out the recommendations of the group of controllers it wishes to support and vigorously pursue their acceptance and recommendation.

Action.—The U.S. Government has adopted and supported firm positions on all the recommendations in the three controller group reports acted upon by the IDB board of executive directors. The board, with the support of the United States, has taken action on all the recommendations in those reports. Implementation of the board's decisions is being pressed. At the initiative of the United States, a deadline has been established for receipt of the Bank management's comments on reports submitted by the group, and a system of semiannual reports

on progress made toward implementation of recommendations has been set up. The first of these reports is due on June 30, 1973.

Two other controller group reports have been released very recently and are under study and review within the U.S. Government. These two reports are: "Reporting Systems" (December 1972) and "Preinvestment Studies" (January 1973). A U.S. working group on reporting systems made recommendations to the NAC which were subsequently transmitted to the U.S. Executive Director for his use in Board meetings. On April 24, 1973, the IDB Board of Directors began its consideration of the reporting systems report, having received comments from management. Thus far three recommendations of five have been acted on in the sense of being accepted. Consideration of the other two recommendations is continuing. We are still awaiting management comments on the preinvestment studies report, and it is currently being studied within the U.S. Government.

B. RECOMMENDATION

The United States should arrange for the development of instructions that stipulate the desired depth and parameters of the U.S. process for appraising proposed projects to guide U.S. officials and technicians in making their appraisal. These instructions should include a clear statement of policy regarding the appraisal of the economic and technical aspects of the projects.

Action.—Instructions and guidelines for appraisal of loan proposals have always existed within the U.S. Government. What had not heretofore existed is their formal codification. This formal codification was, however, issued last month. It is available to officials and technicians in the five NAC agencies. It now contains nearly 50 pages of detailed information relating to loan proposal documentation, project criteria, special policy criteria, and country performance criteria. It can be expanded and modified to accommodate additional requirements or changes in policy.

C. RECOMMENDATION

The United States should arrange for followup on the U.S. positions with respect to specific loan proposals to determine the extent to which they have been accepted in the implementation of the project. Provision also should be made for the feedback of results to those officials and technicians participating in the appraisal process for use in subsequent appraisals.

Action.—Followup action has always been taken on U.S. positions on specific loan proposals. It is now being done on a formalized basis. The U.S. Executive Director's Office at the IDB reports regularly both verbally and in writing to members of the NAC staff Committee on points they have raised. These reports are now incorporated into the minutes of meetings. In addition, a new reporting requirement has been added to the combined economic reporting program (CERP). It requires reports from U.S. personnel in the field on IFI-financed projects and on project proposals which may be submitted to the IFI's in the future. Revision of this requirement will be made as necessary to assure an adequate flow of information back to Washington.

D. RECOMMENDATION

The United States should take the necessary steps to develop, and get agreement among member countries on firm and sustainable criteria for eligibility for IDB lending. Such criteria, although based predominantly on the economic performance of recipient countries, should also provide for such things as guidelines on access to resources of FSO by more developed countries and recognize the need for value judgments in certain individual cases.

Action.—Economic performance of recipient countries has always been considered by the Bank. This is done through annual economic reviews conducted under aegis of the CIAP. Reviews are attended by representatives from the IMF, IBRD, IDB, and USAID. In two instances, the IDB has halted lending activity for extended periods of time because of inadequate economic performance.

In July 1972, the Board of Directors of the IDB received a management plan to phase down access to FSO resources by relatively more advanced recipient countries. This phasedown will take place over a 3-year period in 1972–75 and reduce the share of the four largest countries from 40 to 20 percent. This was a course of action earlier urged by the U.S. Government.

The cost of the Booz, Allen & Hamilton study was $87,879.

Mr. LONG. I understand that GAO has requested the Treasury Department to advise the GAO and the Congress of the recommendations

of the group of controllers in their reports whether these recommendations are accepted or rejected by the Inter-American Development Bank's board of executive directors. Have you agreed to this request?

Mr. HENNESSEY. Yes, we have; and those have been implemented. That is part of what I was referring to previously, sir.

ECONOMIC PERFORMANCE OF RECIPIENT COUNTRIES

Mr. LONG. On page 4 you stated: "In two instances the Inter-American Development Bank has halted lending activity because of inadequate economic performance." When did these instances occur, and how many loans were affected in these two instances?

Mr. HENNESSY. I will turn to Mr. Sternfeld. From the time that determination was made there were no new loans until they improved performance. In one case I think they had to reform the tax system and they kept delaying it and there was a long hiatus.

Mr. LONG. Can you tell us when these instances were and what they were?

Mr. HENNESSY. I think we prefer not to mention the names of the country. That is politically sensitive.

Mr. LONG. I don't know why not. I am very much interested in the countries and why they aren't living up to this.

Mr. HENNESSY. They had poor economic performances.

Mr. LONG. Let's know them. Let's get the poor performance out in the open.

Mr. HENNESSY. Those have since been corrected.

Mr. LONG. I am not interested in keeping it quiet.

Mr. HENNESSY. Those have since been corrected, but let me present these arguments to you.

Mr. LONG. If we know the names of the countries we can make some sort of investigation and come to some judgment on whether or not it has been corrected.

Mr. HENNESSY. I would see that as politically sensitive. We would be glad to provide that to you. The GAO knows who they are.

Mr. LONG. I want the names, I am putting on record right now, of the two countries. I want the names of the two countries on the record.

Mr. PASSMAN. I think it is a reasonable request and I think those names should be furnished to the committee. I think we should have the specifics so if the committee decides it wishes to investigate we can make an on-the-spot check. Can that request be met?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. Thank you. If the gentleman will yield I think it should be made available to all of the committee.

Mr. HENNESSY. Yes, sir; it will be.

Mr. LONG. Have there been other instances besides these two?

Mr. HENNESSY. Where loans have been cut off because of poor economic performance? No. Plenty of loans have been thrown out because the projects themselves were no good, but for overall bad country performance, they weren't getting inflation under control and things like that, no, there have only been two instances.

Mr. LONG. You name those two countries.

Mr. HENNESSY. I will provide that.

Mr. LONG. And you tell us in a categorical statement these were the only two.

Mr. HENNESSY. Yes.

[The information was provided to the committee.]

Mr. PASSMAN. One question before yielding to Mr. Conte. I kind of admire you people the way you do business. In a great many instances you succeed in your procedures, but last year you asked for $450 million for your special operation account for Inter-American Development Bank, did you not?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. And the Congress, in a continuing resolution, gave you $225 million, but now this year you are back again asking for $500 million for the special operation account, aren't you?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. So what you would actually be doing under this request, you would be getting the $225 million deleted last year, you would be getting an additional $275 million, and charging the committee $50 million for the trouble of having to resubmit the request. That is the way this thing reads in the record and that is just the way it is here. Last year you requested $450 million and now you have jumped the request up to $500 million which means a reinstatement of what we cut out last year plus an additional $225 million plus the $50 million penalty. That is the way it reads in the record. Mr. Conte.

GROWTH IN GNP IN LATIN AMERICA

Mr. CONTE. I take this opportunity to welcome you before this committee, Mr. Hennessy. It is good to be back here after a couple of years of sabbatical leave.

How much has the gross national product of the Latin American countries grown in the last 10 years?

Mr. HENNESSY. I would have to submit that for the record.

Mr. CONTE. All right.

[The information follows:]

Gross domestic product annual growth rates, 1960–71

[In percent]

Country:	*1960–69 (average) total*
Argentina	4.3
Barbados	4.8
Bolivia	5.5
Brazil	5.7
Chile	4.5
Colombia	5.1
Costa Rica	6.0
Dominican Republic	3.9
Ecuador	4.7
El Salvador	6.0
Guatemala	5.5
Haiti	0.9
Honduras	5.1
Jamaica	4.6
Mexico	7.0
Nicaragua	7.6
Panama	8.1
Paraguay	4.6
Peru	4.9
Trinidad and Tobago	4.3
Uruguay	1.1
Venezuela	5.7
Latin America	5.4

Mr. CONTE. How many of the countries are put into the category of being less developed? Will you supply that for the record?

[The information follows:]

The least developed countries in Latin America are:

Guatemala	St. Vincent
Haiti	Dominica
Dominican Republic	Antigua
El Salvador	St. Kitts-Nevis-Anguilla
Honduras	Bolivia
St. Lucia	Ecuador
Grenada	Paraguay

Mr. CONTE. What is the balance of trade situation in the Latin American countries now?

Mr. HENNESSY. As the chairman has alluded to, we had a trade deficit last year of some $6.9 billion but we had a small surplus that we have had traditionally with the Latins. That is our best market and it has been one of the most important markets. Of course they do need long-term capital to be able to purchase goods and services from us.

Mr. CONTE. How much has the capital market in Latin American countries grown over the last 10 years and could you provide the subcommittee with a breakdown of this growth on a country-by-country basis?

[The information follows:]

CAPITAL MARKETS IN LATIN AMERICA

A lack of adequate data makes the description of capital markets in Latin America difficult. For example, not until recently have a significant number of countries in the area begun to prepare investment flow-of-funds information. Thus far, only Chile (which has discontinued the series) and Colombia have prepared such accounts. This lack of data is one of the evidences of the limited development of capital markets in Latin America. The OAS Capital Markets program under the supervision of CIAP, is beginning to produce a number of studies, technical assistance programs, and other activities that will contribute substantially toward increasing our knowledge about the development of capital markets in Latin America.

An approximate measure of the development of capital markets is the ratio between financial liabilities and national income. For example, in 1966, Switzerland had an index of 161, Japan 134, the United States 85; whereas in Latin America, Panama had an index of 46, Mexico 41, El Salvador 36, Costa Rica 32, Ecuador 31, Venezuela 29, Guatemala 26, Bolvia 22, and Paraguay 21.

Another measure is the limited development of capital markets in Latin America is the small amount of savings channeled to financial institutions. In 1965, for example, Argentina and Colombia channeled into these institutions less than 1 percent of gross national product, Brazil, Venezuela, and Mexico channeled approximately 1.5 percent, and Peru, which had the highest rate of the countries studied then, channeled 2.5 percent. In Latin America, with the single exception of Mexico, commercial and central banks are the predominant institutions of the capital markets. Such a market in equity and bond holdings is, perforce, narrow and, consequently, provides slight liquidity. As a result, one of the major weaknesses of Latin American capital markets is the small supply of equity funds to finance companies. Indeed, even medium and long-term loan or bonded indebtedness is scarce.

In most Latin American countries, some banks and development institutions (private and public) have been established largely to provide a portion of long-term financing. Other agencies such as mortgage institutions, savings and loan associations, mutual funds, insurance companies, and trade exchanges have developed even less in most Latin American countries, although considerable "institution building" efforts in these areas have occurred in recent years as the beneficial effects of capital market development become more widely appreciated.

Mr. CONTE. What is the level of unemployment in the Latin American countries at the present time?

Mr. HENNESSY. This is one area that does not have good statistics. Because the statistics were not very good it is very hard to say how much it has grown but 20 percent unemployment or underemployment is not too high a figure. I think that is the figure in many countries, not in all of them, of course.

Mr. CONTE. Who are the debtors in the private loans in Brazil and Chile that are behind in repayment of principal, and how far are they behind?

Mr. HENNESSY. I will let Mr. Sternfeld answer that who is closer to the individual operations. I believe one is in Brazil and the other is in Chile.

Mr. STERNFELD. Mr. Congressman, as is indicated in the balance sheets of the two loans, one is to a paper company in Brazil known as the Lutcher S.A. What they currently owe the Bank is $12,664,000. It is in liquidation and the Bank is getting close to auctioning off the property. We have in prospect a buyer for some of the property, and it is expected that the Bank will recover all of its funds.

The second loan in Chile is also to a private borrower, also a paper company. The unpaid principal is $8.9 million and the accrued interest is $6.4 million. They are behind payments for the last two or three payments. We got word last week that they have started to make some payments, so the Bank is somewhat optimistic on recovering its funds on that loan.

URBAN DEVELOPMENT PROGRAMS

Mr. CONTE. Will you please describe the new approaches to the serious problems of urban development, that the Bank has developed, and how successful have these approaches been.

Mr. HENNESSY. Could Mr. Sternfeld answer that? He has followed the program more closely on a day-to-day basis than I do.

Mr. STERNFELD. The approach the Bank has been trying to take is learning from experience, the good and the bad. Many of the advisers to the Bank in this field are U.S. citizens. The Bank just recently made a loan to Colombia, the city of Bogotá, where it has worked with the Colombian authorities to look at the total urban problem, not just at the housing needs but also at the need for streets and the need for police and fire protection and the need for social and health services. The Colombian authorities developed such a program, such a plan, and the Bank made a loan this year to Colombia for that project. That is an example.

Mr. HENNESSY. It is a systems approach.

PROMOTION OF REGIONALISM

Mr. CONTE. Will you describe the Bank's efforts to promote regional organizations? Would you please provide examples as indicators of the success?

Mr. STERNFELD. The Bank has been very active in Central America. The principal instrument that we have been assisting to promote integration in Central America is the Central American Bank for Economic Integration.

As you know, that effort in Central America was going along exceptionally well until the soccer war between Honduras and El Salvador. We think that political-psychological problem has now been taken care of and they are back on the track.

The Bank put in about $70 million into the Central American Bank for all kinds of activities and the proof is that economic growth has been taking place in Central America.

Mr. CONTE. What will the effect be of requiring that loans be repaid in the currency lent. Was the Bank losing money in the past because of the policy allowing repayment in either local currency or in dollars?

Mr. STERNFELD. In the past when the Bank required countries to repay in local currency the country was required to maintain the value of those currencies.

It was the view of the United States and the other members of the Bank that Latin America had reached the state of maturity where they ought to be able to repay in dollars over a long period so that this fund could be more of a revolving nature and those dollars could be used for new loans.

MANAGEMENT STRUCTURE OF IDB

Mr. CONTE. Which American management consultant firm does the bank retain to study its management structure and how much does it cost you?

Mr. STERNFELD. Booz-Allen & Hamilton was the firm. I think the cost—I would have to check that for the record.

[The information follows:]

The cost of the Booz, Allen & Hamilton study was $87,879.

Mr. CONTE. Yes.

And were its recommendations different from those which were made by the General Accounting Office?

Mr. STERNFELD. The General Accounting Office did not make any specific organizational recommendations. Their view was that changes should be made and the Bank ought to look into it. The Board of Directors took the Booz-Allen report and instructed the management to carry out the report 100 percent.

Mr. CONTE. Do you have any figures or estimates on how much the Bank will save as a result of the planned belt-tightening at the management level?

Mr. STERNFELD. No, sir, I don't have any estimates. The only thing I do know is that the Bank has cut back on its requested administrative expenses. There is an increase in for 1973, because of an increase in costs. However, the Board of Directors instructed that there be no increase in staff positions for the year 1973, I don't have a dollar figure as to what that tightening of activities will result in.

U.S. SHARE

Mr. CONTE. You state that the U.S. share of the increase is decreasing vis-a-vis the Latin American share. Would you please detail this decrease?

What would the effect of our making a lesser appropriation than you are requesting for special operations be?

Mr. STERNFELD. When you take into account the Social Progress Trust Fund of $525 million provided by the United States, we have moved from an 11 : 1 ratio in 1961 to a 3 : 1 ratio to a 2 : 1 ratio accepted by the member governments in the current $1.5 billion replenishment.

The impact of a lesser appropriation would result in further stretch-out of an agreed plan, a lower level of lending for the poorer countries who are meeting their side of the agreement, and a feeling that the United States is not as reliable as in the past in doing their fair share.

Mr. CONTE. You indicate that the budgetary impact of the appropriation you request will be spread out in the future. What is the budgetary impact of the disbursement of prior appropriations expected to be in fiscal year 1974?

Have the other participating countries already made their commitments to the Bank's special operations fund?

Mr. STERNFELD. Yes; the other countries already have made their commitments.

The budgetary impact of the disbursement of prior appropriations in 1974 is expected to be $246 million for the fund for special operation.

BANK LOANS

Mr. CONTE. What is the projected amount of loans that the Bank will be making during calendar 1973?

Mr. STERNFELD. It is anticipated if funds are available that the Bank could lend approximately $900 million during calendar year 1973.

Mr. CONTE. When will the $25 million that will go into the letters of credit be drawn down for disbursement needs?

Mr. STERNFIELD. The $25 million, paid in as non-interest-bearing letters of credit, will be drawn down as the Bank actually needs the funds for disbursements against new loan commitments. In accordance with the present schedule, the $25 million will be due July 1, 1973, and it will be drawn down over a 7-year period, beginning July 1, 1974.

USE OF CALLABLE CAPITAL

Mr. CONTE. What would precipitate the drawing down of the callable capital portion of your appropriations request?

Mr. STERNFELD. A drawing down of the callable capital portion of our appropriation request would only be precipitated if the proceeds of principal and interest repayments by borrowers on their loans were insufficient to permit the Bank to meet its contractual obligations under its bond issues. However, in the event of such inability to meet obligations out of borrower's loan repayments, the Bank would have prior recourse to several other sources of funds. Specifically, these other sources are first, a special reserve account—amounting to $43.3 million, as of December 31, 1972—derived from a 1 percent commission charge on all ordinary capital loans, and second, if the special reserve were insufficient, then, to the extent necessary against the general reserve—amounting to $142 million—and if that proves insufficient, the Bank would call upon all its members to pay a pro rata appropriate amount of their callable capital subscriptions (which

totaled $3.6 billion as of December 31, 1972) corresponding to their respective percentage of callable capital, the members are jointly and severally liable to meet the call, the U.S. percentage being 39.9 percent.

Mr. CONTE. What will happen if we do not make an appropriation for the amount that you are requesting?

Mr. STERNFELD. If the ordinary capital funds we are requesting are not provided, our share in the institution will be reduced from the current 39 percent. It will also involve our not meeting a commitment the United States made to other members of the Bank. The $168 million requested doesn't involve budgetary expenditures, it is only a contingent liability against bonds issued in the capital markets of the world. And, of course to the extent we do not provide callable capital, the Bank will be unable to borrow an equal amount.

Mr. PASSMAN. Thank you, Mr. Conte.

Mr. PASSMAN. Mr. Bevill.

EXPANSION OF IDB MEMBERSHIP

Mr. BEVILL. Thank you, Mr. Chairman.

Mr. Secretary, I believe you state now that there are 24 countries participating in this Bank?

Mr. HENNESSY. That is correct.

Mr. BEVILL. Inter-American Bank?

Mr. HENNESSY. Twenty-two Latin American countries, United States and Canada.

Mr. BEVILL. Canada has come in within the past year?

Mr. HENNESSY. Yes.

Mr. BEVILL. Is your Bank still open for other countries to come in and participate?

Mr. HENNESSY. Yes; it is and at the present time there is an exercise going on which is very close, I would predict, to completion in which some 10 to 14 other developed countries, including Japan, Germany, the United Kingdom, will join the Bank and put in an additional amount up to $750 million. We have thought this exercise important and we have supported it.

We would maintain our share so we wouldn't lose our veto. We thought it was important so they didn't have all their eggs in our basket and the Canadian basket. This has been part of an effort which the Latin Americans initially resisted. I think they now realize it makes some financial sense to have this balance so you don't have one big donor country and all the rest are borrowing countries.

I think this has been a concern of this committee and we think that is a very positive and healthy step forward, that the United States can maintain a sufficient degree of influence but at the same time others are going to share importantly, probably starting in the next 2 years by the time they negotiate the amounts and importantly in providing future resources at the Bank.

Mr. BEVILL. And these developed countries coming into this Bank in your judgment do strengthen the Bank, do they not?

Mr. HENNESSY. Yes. None of the ones coming in would be eligible for the loans.

Mr. BEVILL. I understand. It would strengthen your Bank, though, wouldn't it?

Mr. HENNESSY. It certainly would. There would be people coming in. There would be new people on the Board. It would certainly be strengthening the Bank administratively as well as financially.

Mr. BEVILL. And they would not qualify for loans themselves?

Mr. HENNESSY. Not unless they returned to an undeveloped state, they would not.

Mr. BEVILL. They wouldn't be coming in to participate?

Mr. PASSMAN. The process we are in here in this country now.

FUND FOR SPECIAL OPERATIONS

Mr. BEVILL. Would you advise a little more here about what this special operations, $500 million request, is for?

Mr. HENNESSY. The Bank has two windows. One is called a hard loan window and the other is called a soft loan window. The special operations is a soft loan window. For hard loan window resources, the Bank goes out and borrows in the private capital market. They float the Bank's bonds and U.S. insurance companies, German insurance companies, and others buy the bonds and hold them to maturity as an investment.

They take those funds, borrow at 7 or 8 percent and turn around and loan for example in Mexico and Argentina. Those are the most developed countries. The poorer countries which have a per capita income of $300 or below—Haiti, Bolivia, et cetera—their economies are not at a stage of development that they can afford to pay that rate of interest so the fund for special operations makes longer loans and at lower interest rates.

FSO loans are not at market rates. They are softer. The Bank charges 2 or 3 percent interest and lends it out for 20, 30 or 40 years. They are all loans. There are no grants involved here. But recipients do have a longer period of time to pay the loans back.

Mr. BEVILL. Of this $500 million, do you have any percentage as to what would be classed as hard loans and what would be classed as soft loans?

Mr. HENNESSY. All of the $500 million is soft.

Mr. STERNFELD. But it has become a little bit harder, Mr. Bevill. As Mr. Conte asked, this $500 million is now going to be repayable in dollars. Under the old fund for special operations they would repay at the option of the borrower in their own local currencies so there is a change here which is making it harder than it was. It is still soft but it is of a harder nature because when they borrow a dollar they now have to repay a dollar.

Mr. HENNESSY. You sort of bring them along, wean them.

Mr. BEVILL. I had another question or two here, Mr. Chairman.

Mr. PASSMAN. You go right ahead.

AUDIT OF INTERNATIONAL INSTITUTIONS

Mr. BEVILL. There has been some question about how much checking and auditing we in the United States can do since we are, of course, only 1 country out of the 24. I wish you would give us a little information there. Does the General Accounting Office here, the arm of the Congress, have the authority to go in and audit the books of this Bank?

Mr. HENNESSY. No; they cannot. Because of the multilateral character of the Bank they have not been able to, nor have they sought that. I think on the record on several different occasions the Comptroller General has said that he understands the multilateral nature of the Banks. But what the GAO has done is come in and audited the U.S. participation in the organization and through us they have access to the documents, loan documents and different studies, which the Bank makes, as every member government has.

As a result of this committee's interest in an action on the question of audits, they have a Price-Waterhouse type of audit, financial audit, and they have their own internal audit system, but they set up what is called a group of controllers, the head of which is American with longtime experience in evaluations and auditing. The group reports directly to the Board of Directors, not to the management of the Bank, and they have carried out over the past couple of years some six studies on different aspects of the Bank's operations of which the GAO has received copies and they in turn study those and make recommendations, so that we think there has been significant improvement in that but they do not have direct access.

It is one of the functions of these organizations, and if all 24 members wanted to come in and audit the Bank it would be pretty much impossible.

Mr. PASSMAN. Would the gentleman yield?

Mr. BEVILL. Yes.

Mr. PASSMAN. We had an amendment that had the support of the committee and the House for GAO to have the right of audit.

Are you familiar with that amendment?

Mr. HENNESSY. I am aware of it.

Mr. PASSMAN. If the gentleman will yield further, just what would be the objection to the GAO making an audit and let other countries make an audit? You could give them the same privilege. Could that be worked out to where if the country wanted to make an audit, let them do so. There is nothing to hide. There really should be no objection; should there?

Mr. HENNESSY. I think because of the multilateral nature it isn't operational. I think the GAO, first in 1970 and again last year when they testified together with us before the Fascell subcommittee, took the position that they didn't seek that type of authority. Through the methods that are now set up we think there is sufficient light being shown into the operations of the Bank.

Mr. PASSMAN. Could that same claim be made by every organization, whether it is international or domestic? In an international organization is where we should have the right of an audit.

Why wouldn't you people give some thought to legislation whereby we would have that right and if other nations, every one of them, desired to make an audit, let them do so. I wouldn't see anything wrong with it. Recently I think you agreed that the other donors likewise became the recipients of this fund; isn't that right?

Mr. HENNESSY. That is correct, with the exception of Canada.

Mr. PASSMAN. Thank you. Except one little tidbit that Canada puts in, the donor become a recipient; that is right, isn't it?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Thank you, Mr. Bevill.

Mr. BEVILL. Yes, sir. In your testimony then the GAO seemed to feel that their audit of the U.S. participation in this was adequate? Is that what you are saying?

Mr. HENNESSY. They have not sought at any point in time to have direct access. They understand the international nature. What they have tried to do, and I think this committee and other committees have made sure, is see that the audit procedures of the bank and the insight into the operations of the bank through this group of comptrollers, for example, are such that full information is provided and so that in no way is the control system diminished.

Mr. PASSMAN. Would the gentleman yield again?

Mr. BEVILL. Yes, sir.

Mr. PASSMAN. If that be true in this instance, then why shouldn't we abolish the GAO? Why go in and audit the Department of Defense or audit any department of Government if these auditors and audit procedures within the organization are so foolproof and so good?

You are not saying, are you, that the internal auditors of the Inter-American Development Bank are better than the internal auditors of the Defense Department?

Mr. HENNESSY. No; I am not.

Mr. PASSMAN. I think you are really standing on poor ground there. I think that we are going to pursue this later and I hope the committee will consider later putting back the amendment they approved about 2 years ago and let us just see if they can't make it stick.

Mr. BEVILL. I believe my time is up.

Mr. PASSMAN. Mr. Miller, we are on the Inter-American Development Bank.

ENERGY SUPPLIES

Mr. MILLER. Thank you, Mr. Chairman. I have just one question, Mr. Hennessy.

I notice that money has been loaned to develop 2.7 million kilowatts of new electric generating capacity. I am concerned about our own energy problem. Even though this is in another country, what type of fuel would they use there? Would they be in competition with us through a third nation for fuel for their energy with this particular new electric generating plant?

Mr. HENNESSY. I think we have to break down the data but a large portion of what the Bank has done has been hydroelectric projects in Paraguay, Brazil, so it would not be in direct competition. But I am sure there they have thermal plants which depend on petroleum as a base and, of course, Venezuela is the largest supplier of U.S. energy sources. They supply some of the other Latin American countries so there would be a certain degree of competition in there. But to get you a precise amount I would have to break it down between thermal and hydroelectric plants that they had generating.

[The information follows:]

IDB LOANS FOR ELECTRICAL ENERGY

The Bank has made loans for electrical energy totaling $982 million, to finance projects costing a total of $3.8 billion. These projects will provide a generation capacity of 10.4 kilowatts, of which 2.7 million is now in service. As shown in the following table, 95 percent will be generated by hydroelectric plants and 5

percent by thermal units. The breakdown by type of fuel used in the thermal plants is: 60 percent oil, 37 percent natural gas, and 3 percent coal.

IDB ELECTRICAL ENERGY PROJECTS (BY TYPE OF PLANT AND FUEL)

	Generating capacity	Percent
Hydroelectric plants	9,828,000	95
Thermal plants (of which)	547,000	5
Oil	327,000	(60)
Natural gas	202,000	(37)
Coal	18,000	(3)
Total	10,375,000	100

Mr. MILLER. If they are hydroelectric there is no problem because they are not going to use the fossil fuel. But it would be good for the record if we could indicate what type of fuel is used in the various plants.

Now, apparently there may be more than one electrical generating plant.

Mr. HENNESSY. Oh, yes, there are many.

Mr. MILLER. With the amount of kilowatts, and that would be an extremely high amount.

Mr. HENNESSY. There are many, many plants involved.

Mr. MILLER. Very good.

Thank you, Mr. Chairman.

GROUP OF COMPTROLLER RECOMMENDATIONS

Mr. LONG. Mr. Hennessy, a little while ago you told us that the GAO had requested the Treasury Department to advise GAO and the Congress of the recommendations of the group of comptrollers and their reports and whether these recommendations are accepted or rejected by the IDB's Board of Directors, and I asked you if you had agreed to this request and you said yes.

Mr. HENNESSY. Yes, right; that is correct. We said we would give to the Congress the recommendations. We provided the individual reports to the GAO; yes.

Mr. LONG. According to Mr. Eugene Wohlhorn, Assistant Director of GAO's International Division, the Treasury Department has not yet agreed to GAO's request to be advised of recommendations made by the group of Comptrollers of the Inter-American Development Bank in their reports, and Mr. Wohlhorn talked with a member of my staff this morning on this matter.

How do you explain this?

Mr. HENNESSY. Mr. Sternfeld is more up to date on this. I don't understand the contradiction.

Mr. STERNFELD. Mr. Congressman, the GAO receives copies of these auditors reports. They know all of the recommendations. Specifically in the case of the two recent reports, in the case of the Paraguay report, there were 20 recommendations. Seventeen were accepted by the Board and three were rejected.

In the case of the education report, the most recent one, also 20 recommendations were made. Fifteen were accepted and five were re-

jected, and we have the document from this group that shows as of November 1972 the status of each of the recommendations which the Board called upon the management to carry out, where it stands, how many have been implemented, how many have been partially implemented, and what the status of action is.

Mr. HENNESSY. I think I understand the question now. The GAO has asked us to submit answers to what has been done on the recommendations directly to them. We said we will submit them directly to the committee, the Congress, because we are not under GAO jurisdiction directly. We thought the proper procedure was to prepare and submit the answers directly to congressional committees, which is what we have told the GAO, and that may be the misunderstanding or misinterpretation here.

Mr. LONG. Any particular reason why you made the GAO get it the hard way rather than giving to them directly?

Mr. HENNESSY. It may be a formality. They get copies.

Mr. LONG. They are the watchdog of Congress. We rely on them for help.

Mr. HENNESSY. That is correct. We report directly and this is why we are here before the committee. We provide them with copies of things but we see the authority flowing from the Congress directly over to us in this particular field.

Mr. LONG. Do I detect a certain amount of tension then between you and the GAO—unwillingness to give them the information they want?

Mr. HENNESSY. I don't think there is a problem. As I say, it is a question of the procedure and the process.

Mr. LONG. Have you told them where they could go to get it?

Mr. HENNESSY. Yes, I believe we have. Yes, it is in the report.

FSO RESOURCES

Mr. LONG. On page 8 of your statement you discuss the request of $500 million for the Inter-American Development Bank's Fund for Special Operations at the soft-loan window. You state the action is needed if IDB concessional lending is to continue through the calendar year.

Are you saying that the fund for special operations cannot continue without the appropriation of the full $500 million?

Mr. HENNESSY. They would run out of available funds by the end of this calendar year which means they could not then continue beyond that point if they didn't get any new funds. This in the past has been a great question of concern. They have undisbursed loans but we clearly don't think in the Treasury the bank should make a loan before the Congress has appropriated the funds because the funds may never be appropriated and then they would have undertaken legal commitments.

Mr. LONG. What is the unobligated money that isn't in any way indicated as being loaned?

Mr. STERNFELD. On December 31, 1972, there was $352.5 million in dollars unobligated.

Mr. LONG. In that one fund?

Mr. STERNFELD. Yes.

Mr. LONG. How much do you calculate is going to be available at the end of this fiscal year, 1973?

Mr. STERNFELD. It is our estimate that all of that money will be committed, obligated before the end of the calendar year.

Mr. LONG. Will be committed?

Mr. STERNFELD. Committed, obligated; committed in our terminology.

Mr. HENNESSY. If you look backwards, because of the cuts they have had to cut down the amount of soft lending they have done. I think 2 years ago they were up to $450 or $460 million a year. Last year that came down because of lack of availability, and even projecting at the lower level of last year they are going to run out about three-quarters of the way through the year.

CONCESSIONAL TERMS

Mr. LONG. These are juicy loans. You say 2 percent interest with terms of 30 years?

Mr. STERNFELD. Yes, sir; some of those loans. Some of the countries get them for 30 years, depending upon the economic state of the country. The more developed they are, the shorter the term.

Mr. LONG. This is in countries where the market rate of interest is usually anywhere from 8 up to 20 percent; isn't that right?

Mr. STERNFELD. That is correct.

They have high rates of inflation in those countries.

Mr. LONG. I am just wondering why the soft loans have to be so soft.

In a country where hard loans are about as hard as marble why do soft loans have to be so extremely soft?

Mr. STERNFELD. I would agree with you in countries where they have a very good debt repayment capacity. You get down to some of these countries like Mr. Hennessy earlier mentioned like Haiti, or Ecuador, Bolivia, their capacity to repay these loans is on the increase but it is limited and that is the reason for the softness.

Mr. LONG. That is what I don't quite understand. These are countries in which rates of interest are very high because in the esoteric language of economists—the marginal productivity of capital is very high because there is very little capital in relation to anything else; so capital on the private market has very high rates of return.

In a setting like that you would think that another $100 million or so would have a very high yield if it were put to the best use and consequently I am puzzled as to why with capital so scarce, so precious, where people really pay usurious rates—I have seen in Mexico and other countries, where people are paying up to 50 percent, 100 percent of interest every year, so that even hard loans would be of enormous value in those countries—that we practically give money away.

Isn't it true when you loan money for 30 or 40 years at 2 percent you are not giving it away completely but you are half giving it away? This is half a gift?

Mr. HENNESSY. I think part of the policy is the difference between the private rate and social rate of return. This interest structure has to go along with the business and the rest where they can pay the hard

rate because the marginal productivity of capital is high, but the marginal productivity of capital for education has a long leadtime so the longer term is needed for education, and for housing, and that type of thing.

The rate of return can't pay off a 20 percent loan or even an 8 percent loan.

Mr. LONG. You educate these people. You put people through school. It only takes about 6 or 8 years to get a kid through grammar school. They don't really go much beyond that, most of them.

Mr. HENNESSY. The bank has a lot of secondary and higher education.

Mr. LONG. There is some assumption that this does have a yield, not 30 years, but 8 or 10 years.

Mr. HENNESSY. It has to have a yield of 10 percent. It is strung out and there is no foreign exchange component to it. It is not generating any new exchange and in fact you may increase the demand for exchange.

So there is a transition period and then they can generate their repayment.

Mr. LONG. I went through a housing project in Venezuela where there were some vacancies, because the people were being charged pretty good rents. Actually they weren't very poor people. They were middle class people who were being rented this housing.

Now, the money that we were lending to the Venezuelan Government under your IDB or whatever it was, was at these very low rates, but the housing authority was charging not hard loan rates as we would think of for those countries but much harder than these, so that the people weren't getting the advantage of this.

It was somehow going to the government and nobody really knew exactly where it was ending up, maybe in the hands of the builders and so on. Doesn't that bother you?

Mr. HENNESSY. If it ended in the hands of the builders it certainly would.

Mr. LONG. Doesn't it bother you when you make money cheap and easily available that maybe they don't make the best use of it and a lot of it is being just put into very low-grade investments because it is such cheap money?

Mr. HENNESSY. I think that is an inherent danger in any of these things but the bank does a project analysis of each individual loan. They look at the cost-benefit and they say unless they have at least a 10-percent economic return on that investment, they won't undertake it. A 10-percent return, that is the cutoff rate.

They normally want higher rates of return. These cost-benefit ratios aren't perfect, but that is a de minimis return.

AUDIT OF INTER-AMERICAN BANK

Mr. LONG. I understand that. Of course, we have to take your word that the bank does these things and looks into these things as capably as our watchdog, the General Accounting Office, might.

What is the objection to having the General Accounting Office find out whether, in fact, your judgment is the judgment of a prudent

person who is investing his own money, his own hard money, in these areas?

You were arguing a little while ago that, if we opened this up for audit, all the 22 countries would want to audit. This is extremely unlikely because most of them don't have a General Accounting Office and an audit would be very expensive. My guess is most of them wouldn't be bothered with it, and you might get two or three countries auditing, but you wouldn't get all of them.

Mr. PASSMAN. What would be wrong with it if they did?

Mr. LONG. That is right. Of course, you don't want to have people coming in on you every day and looking at your books. I can understand that. But how do you expect Congressmen, who are, after all, taxing and appropriating money of their constituents, to turn it over to an international organization that says to Congress "We aren't going to let you look at the cards in our hand. You are going to have to take our word for it that this is done intelligently and wisely. You just be assured that we are sensible, intelligent people and we used good judgment."

How can you expect Congressmen to want to give multilateral loans and put our aid over on a multilateral basis if that is the attitude you folks and those institutions are going to continue to take?

Mr. HENNESSY. I think I would make a real distinction here. What I am saying is GAO can look at the cards. They can look at the books, but they can't go into the bank's organization and go over the books. We provide them with the information. For each loan that the bank made last year we turn over the loan documents they can look at. And we provide them with each and every in-depth loan document, so it is not a lack of information. It is just they cannot go directly to the bank and go in and audit the books and the rest. There are outside auditors—it is Price, Waterhouse for the bank—and they do an outside audit, but the GAO physically can't go into the bank and do that.

They have to work through the executive branch which provides them with the loan documents, the economic analysis, the technical studies, the engineering studies, whatever they want, and GAO itself has gone out into the field and looked at some of the projects. It has seen what the AID mission, which helps us supervise these, is doing and what the embassies are doing out there.

I think it is the same as General Motors which has a subsidiary. They want to make sure the control system is there and they have access to the information but it may not be the head office official of General Motors who goes out and looks at the books of their subsidiary.

Mr. LONG. According to your own figures here, 55 percent of all of the Inter-American Bank total to date through fiscal 1972 was U.S. money and 76 percent of all of the money for the Fund for Special Operations, the soft loan fund, which is, of course, the one that is most in danger of being used unwisely because of the very soft terms. Don't you think that puts us in a little special category, if we are putting up between 55 and 75 percent of the money, that our General Accounting Office shouldn't have some little special right to see how the money is being used?

Mr. PASSMAN. Give a very brief answer, if you will.

Mr. HENNESSY. I think we do have a special position but I still think the existing control system is operational and correct and gives the assurances we both need.

Mr. LONG. You are entitled to feel that way but if you were in my shoes and the shoes of the chairman you would pardon us for not feeling that way.

Mr. HENNESSY. I understand your feelings but I think if I were the head of General Motors and thought my subsidiary's control system wasn't correct, I would correct the system.

Mr. LONG. Of course, we are not General Motors. We are the Congress. But is GAO satisfied with this system?

Mr. STERNFELD. Mr. Long, if I can give you some history, it was the Congress that asked the Secretary of the Treasury by statute in the Inter-American Bank Act, instructing the U.S. Executive Director to get an audit system set up in the bank, this group of controllers. There is also a specific provision in the law which calls for the Comptroller General to view these audits and findings and report to the Congress and the Treasury on how the whole system, including the auditing system, reporting standards and what these independent audit systems are doing or what anybody else in the bank is doing.

We have been providing all this information to the GAO. It was the United States that got this group established. We did exercise our influence in the bank. There was strong resistance to it, tremendous resistance. As it happens, it is 5 years later now and the other members of the board appreciate the work of this group. This group reports directly to the board.

Mr. LONG. If they like to have them, I would hope they would like to have GAO. Let me serve notice that, as a member of this committee, I am not going to vote for any extension of our multilateral loan procedure and the turning over of our aid funds to multilateral institutions, until we get the kind of audit that I think we are entitled to. I think the GAO needs to do its job of being the watchdog for the U.S. Congress.

Mr. PASSMAN. Thank you, Dr. Long.

If I may elaborate on that before yielding to my very patient colleague from California, the GAO audits the books of every Government organization upon request, such as the Defense Department, Interior Department, Treasury, Post Office, and so forth. They have the right when a request is made and they uncover a lot of abuses. Reams and reams and reams of information has been developed by GAO and has been extremely valuable to Members of Congress in making corrections.

If it is good for the GAO to audit our Federal agencies, it would appear that an international organization would also benefit from their audits.

Let us just be realistic. Would there be any defense? If everything is in order, they have nothing to fear. I don't know why we shouldn't have that right of audit. You made the statement a moment ago that it was the Congress who passed this legislation. Everything that you do downtown is according to an act of Congress, is it not?

Mr. STERNFELD. Yes, sir.

Mr. PASSMAN. And, of course, a large percentage of all the bills that are passed by the Congress are drafted downtown by the downtown bureaucrats; is that not so?

Mr. STERNFELD. This particular provision——

Mr. PASSMAN. Let us get an answer.

Mr. STERNFELD. This particular provision was drafted in the Congress.

Mr. PASSMAN. Sure it was drafted. The suggestion comes down but a very large percentage of all bills enacted by the Congress actually are drafted downtown by the Department heads and sent up here; is that not correct?

Mr. STERNFELD. A large percentage are drafted downtown.

Mr. PASSMAN. That is exactly what I said: "A very large percentage are drafted downtown."

Mr. Roybal.

EMPLOYMENT OF MEXICAN-AMERICANS

Mr. ROYBAL. Mr. Director, during the last year, your office and mine have been in almost constant communication with regard to the employment of Mexican-Americans by the Bank. I have been submitted a long list of Spanish-surnamed individuals who work for the Bank but I have not been able to get the information I want.

I want to know how many of these individuals are Mexican-Americans. In your particular department as well as in other Federal agencies we find that they include people that they bring from Latin America. Most of those they bring from Latin America are here as permanent residents, but they are individuals who were solicited from Latin America and became permanent residents in order to take the job.

I don't think that this committee or this Congress should be financing that kind of a situation.

However, I still don't know how many of your employees are Mexican-Americans. Can you supply that for the record if you don't have it at the present time?

Mr. STERNFELD. I don't have it, Mr. Roybal, but I don't know how one can tell as to whether the individual is a Mexican-American——

Mr. ROYBAL. Very easily. The only thing you have to do is go back to their biographical sketch and find out where they were born. If they were born in the United States and have a Spanish surname it is assumed that they are Mexican-American.

Mr. STERNFELD. If that is the criteria, I think I can do that. If they were born in the United States——

Mr. ROYBAL. If they were born in Peru they are not Mexican-Americans. You cannot make a final determination of course but that is about as accurate as we can get it under the circumstances.

Mr. STERNFELD. They may have been born in Puerto Rico and listed as born in the United States.

Mr. ROYBAL. I, of course, would include Puerto Rico in that category.

Mr. STERNFELD. I don't have that but I can find out of the list of names which we supplied your office how many of these were born in the United States.

[The information follows:]

Of the 81 employees listed, 27 were born in the United States.

Mr. ROYBAL. Also in your communication to my office you say that you are submitting a report on the current picture of our efforts to have the Bank fill one of two top positions and one of those is a director of information and the other is auditor general.

You also state that there are two individuals under consideration, one for the position of director of information and the other is, I suppose, director of the small business activities department.

Mr. STERNFELD. Yes, sir.

Mr. ROYBAL. Where does the auditor general come into this particular picture?

Mr. STERNFELD. I am sorry. I was trying to give a report not only on the actions taken both on the director of information and the auditor general but other positions that we are looking at in the Bank.

Let me correct the report you have to say that as of last night the individual who was offered the position of chief of information has accepted and he will be on board on May 1. He is a Mexican American.

Mr. ROYBAL. What does the chief of information do?

Mr. STERNFELD. He is in charge of the total information activities of the Bank. He sits in with the top level of management. He reports directly to the President of the Bank and he has the press relations, radio-TV, trying to get the people in all the member countries from Canada to Argentina informed about what the Bank is doing.

Mr. ROYBAL. In other words, he is the public relations head of the Bank?

Mr. STERNFELD. Yes, that is what he would be.

Mr. ROYBAL. And he is not really involved in the day-to-day operations of the Bank, is he?

Mr. STERNFELD. Well, he can't do his job unless he knows what the day-to-day operations are.

Mr. ROYBAL. I understand, but he is not in a decisionmaking position with regard to that operation.

Mr. STERNFELD. No; I would think he would be advising the President on the public affairs aspects of the activities of the Bank.

Mr. ROYBAL. He is then the publicist, the writer, the public relations man; is that correct?

Mr. STERNFELD. That is a good description.

Mr. ROYBAL. Which, of course, is not in any way connected with the daily fiscal operations of the Bank as an auditor general would?

Mr. STERNFELD. He is not the auditor general.

Mr. ROYBAL. What has happened then to that position of auditor general?

Mr. STERNFELD. The auditor general position is currently filled by an American.

Mr. ROYBAL. My understanding was that it was open.

Mr. STERNFELD. There was some feeling that there may be a vacancy but it is filled by a man who formally works for Price Waterhouse. The man is still on the job.

Mr. ROYBAL. It was my understanding in the colloquy we had last year that that position was open and that you were out seeking someone for that position.

Mr. STERNFELD. There was a controller's job open.

Mr. ROYBAL. Is that still open?

Mr. STERNFELD. No, sir; it has been filled by a Canadian.

Mr. ROYBAL. By a Canadian?

Mr. STERNFELD. Yes.

Mr. ROYBAL. Well, here I have another country to complain about. I thought it was just the Latin American countries that were taking all the juicy jobs. Now we find the Canadians are also. I agree, of course, that they should have their proportional share of the jobs, but my observation based on what I saw last year and the year before clearly indicated that this was not the case at all, that Latin Americans and others were taking the lion's share of the jobs and that people here from the United States were not being given an opportunity to participate.

I realize that you did send out someone to California to interview people. I know exactly whom he interviewed. I know exactly what happened, and I don't think that we can kid ourselves with regard to the excuses given in your report for not hiring these people. One was that with the exception of two or three candidates their command of Spanish and knowledge of Latin America was poor, although both would be expected to improve with time.

How fluently does this Canadian speak Spanish?

Mr. STERNFELD. He understands Spanish. I don't know how fluent.

Mr. ROYBAL. Would you say he is more fluent than some of the people he interviewed?

Mr. STERNFELD. I have no knowledge of the people that were interviewed. I will check with the man who did the interviewing and see whether there is a——

Mr. ROYBAL. My contention is that this is a poor excuse.

Mr. STERNFELD. I am sorry, Mr. Roybal. I don't think I wanted to make the observation that these were excuses. This was just a report that was given to me on the results of interviewing these 23 people. These are the findings.

Mr. ROYBAL. Isn't it true that the jobs that you offered to certified public accountants in Los Angeles were not that of controller, or auditor general——

Mr. STERNFELD. Yes, sir.

Mr. ROYBAL. To whom did you offer the job of auditor general?

Mr. STERNFELD. The director of personnel went out to California and looked around for other people. He was interviewing people for both jobs, director of information or the auditor general. He was not interviewing people for the controller position.

Mr. ROYBAL. My understanding is that they were not offered a specific job.

Mr. STERNFELD. They were being looked at in terms of their qualifications for the job of Auditor General.

Mr. ROYBAL. In talking to some of the people who were interviewed, not a single one of them indicated to me that it was the job of controller or Auditor General that was discussed. What was discussed was a position of some kind. That they would have to come to Washington for an interview and it would be at that time a determination would be made as to what slot those individuals would be placed in.

Isn't that correct?

Mr. STERNFELD. I don't know what the man did. If that is what your people are telling you I am sure that is true, but what he was instructed to do was to go out and start a process of recruiting people,

bringing those people who passed through the screen to Washington for interviews on the Auditor General position, those people who had CPA's and were qualified.

His report, as I indicated, is that the people that he offered to bring to Washington for the Auditor General job, most of them were making more money than what this job would pay.

Mr. ROYBAL. What does the Auditor General job pay?

Mr. STERNFELD. Unfortunately I don't have it in gross terms. In net terms, it is $25,000–$26,000. In gross terms it is somewhere between $30,000 and $40,000.

Mr. LONG. Is that free of income tax?

Mr. STERNFELD. No; that is gross.

Mr. ROYBAL. I am not going to go into the income tax matter. But at $40,000 I can assure you they wouldn't refuse because I know every one of the individuals interviewed.

Of those who were interviewed I don't think a single one of them would have refused to come to Washington for $40,000 a year. My contention is that you went out there, conducted a survey to find out who was available and in effect said to them, "You will have to go to Washington. We don't know exactly what position we are going to place you in but we are going to place you in some position," and then you went ahead and said, "Compensation is in the neighborhood of $25,000 to $26,000 a year."

Each one of those individuals that you interviewed is now earning a great deal more than $25,000 or $26,000 a year.

Mr. STERNFELD. $25,000 or $26,000 is without the tax and that will come up to $30,000 to $40,000.

Mr. ROYBAL. That is not what you told them. There are ways of selling a product. You can present the subject matter in a way that will be attractive or not attractive at all. You remind me very much of the individual my grandfather used to describe, as the self proclaimed expert who would look for work every morning, but would kneel down before doing so and ask God not to find a person that would hire him.

I think you went out to California to make these offers hoping that no one would accept them and the way they were presented clearly indicates that this is the case.

Mr. STERNFELD. I didn't do it, sir. The only thing I know is that the Bank had the best man they could possibly get to do the recruiting, the director of personnel. The president of the bank assured me he gave him strong instructions to go out and recruit candidates. I didn't go out myself.

Mr. ROYBAL. It is my contention that whoever was sent out was not seeking someone to fill the position of Auditor General at a rate of $30,000 to $40,000 a year.

Mr. STERNFELD. Well, it was $25,000 or $26,000 net. I don't know what that comes up to.

Mr. ROYBAL. I say that no one was offered a job at $35,000 to $40,000 a year.

Mr. STERNFELD. Sir, I will go back to the president of the bank and have him call in the director of personnel, and I want to do it with not the director of personnel and myself only, and see what he tells the president of the bank and me.

Mr. ROYBAL. And I also contend that a good selling job was not done in getting these people to apply for these jobs. The reason I say that is because I talked to each one that you interviewed, not you personally but whoever did the interviewing, and I was told by these same people the same thing.

"Why should I take a $25,000 to $26,000 job when I earn more than that now?"

No one told them that it was between $35,000 and $40,000. They all mentioned the same $25,000 to $26,000.

Mr. STERNFELD. OK, I told this man you were going to be after me. I knew that.

Mr. ROYBAL. Right.

Mr. STERNFELD. And if he didn't come through he would have to justify it. I am sure every U.S. citizen that the Bank interviewed had to be told that the salary being quoted was net salary and there was a tax on top of it. But I will report back to you as to what his answer to me is.

Mr. ROYBAL. You mean there is a net salary and there is a tax on top of it? I don't understand what you mean.

Mr. STERNFELD. The Bank reimburses the individual for the tax on that salary.

Mr. ROYBAL. This is another point, incidentally, that was not put across to these prospective employees. That the salary is $25,000 to $26,000 per year net after taxes.

I still feel that this was not properly done and that a good selling job was not the main objective of the offer that was made. Now, this is not really a criticism of you personally.

Mr. STERNFELD. I know what you mean. It depends on how somebody approaches it. If a man is going out on a recruiting job he should be going out to sell.

Mr. ROYBAL. That is correct. A job specification stating the duties and pay were not given the individual. I think it should be done while presenting a job offer to an individual, particularly a certified public accountant already well established in his area who might be induced to come to Washington, if, of course, it is beneficial to him financially. There is nothing more beneficial than the tax advantage you fellows are getting with regard to your income taxes, and if you can't sell that you can't sell anything.

That is all, Mr. Chairman.

PURPOSES OF FOREIGN AID

Mr. PASSMAN. Thank you, Mr. Roybal.

Mr. Hennessy, according to audited figures the foreign aid and assistance programs net cost to the U.S. taxpayers since its inception after World War II when we include the interest on what we have borrowed to give away is now about $250 billion.

Is that in the neighborhood of the information that you have?

Mr. HENNESSY. I don't believe we make the interest adjustment but that sounds not out of the ballpark.

Mr. PASSMAN. I think the purpose of foreign aid as espoused by the sponsors in 1947 was to help our neighbors, primarily at that time in

Europe, and later it went around the world until finally U.S. aid reached 127 nations of the world. Does that sound correct?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. Which is just about all the nations of the world. I think the purpose was to help mainly underprivileged people, to give them a better standard of living, and a better education so that they, too, could share in the resources of the country.

Is that the general purpose of it?

Mr. HENNESSY. Help people help themselves, yes, sir.

Mr. PASSMAN. Would you at this time based upon your evaluation of the program feel that it has succeeded?

Mr. HENNESSY. It certainly has succeeded with a large majority of the countries but certainly not all.

Mr. PASSMAN. I am not saying that all of them reach perfection but do you think that we have lessened poverty, increased education, and by and large helped the people around the world with this program?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. It would be an act of complete dishonesty to lead you any further. Every witness before this committee makes the same statements that you make and I know that they are dedicated public servants. They feel that way.

But when we go to the justifications of the very witnesses who come before the committee, and this particular testimony is from the Peace Corps, here is what they say on page VI:

> It is commonly agreed that the gap between rich and poor nations continues to widen despite two decades of concerted efforts by leading developed nations.

They go on to say:

> The first lesson was that transferring capital and Western technology alone were not enough to affect the significant well-being of the 2 billion poor people in the developing world.
>
> The World Bank estimates that 1 billion people are still hungry or malnourished and that there are 100 million more adult illiterates today than there were 20 years ago.

So if you have 100 million more illiterates today and the spread between the rich and poor is continuing to widen, then it could be said that we rendered a disservice and prompted these people to become complacent and not work for themselves.

It is pretty hard in the face of this direct testimony for members of this committee to rationalize some of the justification presented before the committee. A lot of people believe that when you do for people what they could and should do for themselves they become too dependent on others.

One of the poorest nations of the world, India, you may recall, said, "Actually your aid is doing more harm than good. We wish you would discontinue it."

Some of the Indian public officials made that statement, and I don't think we should continue discounting some of these statements made by these people.

Mr. HENNESSY. I believe most of them are telling us to double our amount and triple and quadruple the amount of our aid because the needs of these countries are so great. I think by and large in the developing countries we, that is the industrial nations, put up I guess

10 percent of the investment and they, the developing countries, have to put in 90 percent.

I think we want to encourage a system which puts the major burden on them to save more and to put up their own funds.

Mr. PASSMAN. I know it, but people who appeared before this committee 20 years ago painted a very rosy picture that they were making great progress and every year now they would see improvement, by creating better family living, better education, and more schools. You ought to read some of the old hearings, and read the very rosy reports about what they had accomplished, but it would appear now at this late day after $250 billion of our resources have gone down the drain we have people now actually saying that poor people are poorer and we have 100 million more adult illiterate people today than 20 years ago.

Mr. HENNESSY. I think one of the major problems is population growth, and that is one of the things the banks had not gotten into until very recently, because the population growth has outstripped the ability of anyone to provide resources.

They have now, including India, developed a number of programs. I think that is a very key issue which I think with some of the rose-colored glasses in the early years people overlooked.

Mr. PASSMAN. The facts are, and we agreed earlier, that all this was done on borrowed money and that former recipients of this aid program are making Mickey Mouse currency out of our money, laughing at us and running from the dollar. Regardless of how desirable, if it is good at all, we have gone far too fast and the American economy can no longer support programs of the magnitude you people advance.

I read this article which I think is from the U.S. News & World Report and it impressed me. It said:

> U.S. citizens, the overburdened taxpayers, are of the firm opinion that too many foreign nations are now living beyond our means.

I think that is pretty true.

Mr. HENNESSY. I think we would be in pretty tough shape, and take the case of Latin America, Mr. Chairman, if they stopped purchasing our products and if we lost our favorable trade balance with Latin America that would not be very favorable to us right now.

Mr. PASSMAN. I think this quote would apply to what you are doing with foreign aid:

> It has taken money from the poor people in rich countries and given it to rich people in poor countries.

It is pretty hard to discount the real accuracy of that statement.

Now, if we must deal with dollars, I know a little something about the free enterprise system. I am a product of it. I know a little bit about banking, more about borrowing than anything else, but usually business corporations set up their capital account in banks and they expand out of the earnings, do they not?

You are a banker.

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. Capital stock and paid in surplus. You begin then to expand out of your profits. Why don't you people operate that way? You always have to come back for more. You have an appetite that can't be satisfied.

Every year in every foreign aid program, whether it is multilateral or whether it is bilateral, the amount, Mr. Hennessy, keeps growing.

You are from the Treasury Department. You know that all the requests when you put them together in the fiscal year 1974 budget exceeds $18 billion for foreign aid. We have a lot of sympathy for poor people because quite obviously you know my background. I came from very, very poor people, sharecroppers. I never had to apologize for it, they were good Christians and hardworking people. They never went to their government for subsistence. We carved it out the real old hard way.

Mr. HENNESSY. I come from the same type of background, Mr. Chairman.

Mr. PASSMAN. All right. I think actually that not only in foreign countries but right here in our own country we are just training a lot of people to stop working for a living. We keep saying: "The Government will take care of you." It has just gone too far, but you do have a lot of people in America in certain areas that maybe are poverty stricken just as some of the people that you are speaking about in other countries. It would appear to me in a great many instances we are neglecting America to take care of people abroad and unless I miss my guess, unless you people scale down greatly your requests for foreign aid this year, you may wind up with no foreign aid at all.

You remember when everything was OK in this country, moving along fine, you could only pass this bill by about seven votes in the House. Didn't it get down to about seven votes?

Mr. HENNESSY. I can't remember, but it was quite close.

RESERVING OF FUNDS

Mr. PASSMAN. That was when everything was going along lovely. Every American was getting his projects financed. You realize that in the interests of economy, cutting back on expenditures, keeping the budget deficit down to $28 billion this year, that the President impounded funds on many, many public works projects similar to what you are doing in Latin America, isn't that true?

Mr. HENNESSY. There is some reserving of funds; yes.

Mr. PASSMAN. I wouldn't try to put words in your mouth. What I mean, they have canceled projects, ongoing projects, where there is a need to keep them going, they suspended the operation and just said, "Sorry, we are going to have to stop this project." You have other projects where they were placed in budgetary reserve, and they will never be put back into effect.

I don't quarrel with the President for impounding $8.7 billion to keep the expenditures down but even in light of that, you foreign aid people are going to help build a deficit of $28 billion. I wish you would take this message back to OMB, that they had better scale these requests down. If they don't, you will wind up without any bill at all.

REQUEST FOR IDB

If I may reemphasize just one thing, last year you requested for the fund for special operations, $450 million. We gave you $225 million; is that correct, in a continuing resolution?

Mr. HENNESSY. Yes; that is correct.

Mr. PASSMAN. Now you are back in requesting $500 million. The only way I can see it, and it is quite characteristic of many of the bureaucrats downtown, when we cut their request, they come in with a supplemental, get it all back plus a little penalty for being annoyed.

In this case we gave you $225 million and you come in this year asking for $500 million, which is getting back not only what we cut out last year, but you are getting million more for annoying you.

Mr. HENNESSY. If that was correct, sir, we would be asking for $725 million.

Mr. PASSMAN. If you would have gotten what you asked for, you would have received $725 million for this one account; wouldn't you?

Mr. HENNESSY. $500 million plus $225 million would be $725 million; that is correct.

Mr. PASSMAN. Where we gave you $225 million last year?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Then when you add that to what you are requesting, if you should get it, you would have $725 million.

Mr. HENNESSY. Yes. What I am saying is if we added on what we lost last year to our original request, we would have come in with a request of $725 million and not with $500 million.

Mr. PASSMAN. You can't satisfy your appetites down there, but let's just deal with the facts of life. You are actually not only doubling what we gave you last year, you are adding a little penalty in there.

Mr. HENNESSY. We start from a different basis, you know.

Mr. PASSMAN. Oh, no, you people go out and make these commitments. Heretofore you have been behind a smoke screen, not you, but the aid programs. In the past we heard: "This is an international organization, a sacred cow. Our people made these commitments, and you have no alternative other than to appropriate the money." We looked into the law and I am glad today that you admit we have the right to make these reductions.

Mr. HENNESSY. On this particular point, Mr. Chairman, I think you asked us last year not to go out, not to make any new commitments, but to keep you informed of any international discussions which might commit the United States, and I think I can come back and say I think we have been responsive to the committee in that sense. There are a number of international discussions on new replenishments starting 2 and 3 years from now which I have mentioned in my testimony. At some point I would like, if the committee's time so permits, to discuss them. For instance, in the IDA, which isn't the subject of today's discussion, we are in the process of trying to reduce. You may not believe your ears, sir, but we are actually trying to reduce the U.S. share from the 40 percent which has caused you some concern to 30–35 percent.

Mr. PASSMAN. Wait now. You are using statistics that you people use in creating these formulas. You are not using the committee's statistics. I am using what the committee feels should be adequate, and that was $225 million for the fund for special operation last year, and this year you are asking for $500 million. You say, "Well, if we had gotten what we wanted it would be $725 million". No doubt that is true. I think that is an accurate statement if you got what you want but the facts are we have to go out and borrow this money. If you people don't scale down these requests, I don't actually believe that you can get a bill through Congress. It is going to be rather difficult for me to take this bill out on the floor of the House. Congress is going to think about those projects back in their own districts that have been closed down, they can't get a dime, and they know that you people

are funding the identical projects all over the world. You see my point, don't you?

BURDEN-SHARING

Mr. HENNESSY. I understand your point. The one difference if I might say here is that in all of these institutions the idea is to get others to put in more dough. In the Latin Bank you are right at this time, it is just Canada and us. We are trying to get others in. In IDA we are trying to reduce our share from 40 to somewhere between 30 and 35. We keep going down to our needs. I don't think you are saying at the same time that we should get out of these institutions that they are not useful, they are not useful to the President's purposes. It is a question of what is the relevant amount and I think here there may be a difference.

Mr. PASSMAN. Mr. Secretary, this reminds me, I used to go deer hunting, and just on impulse I would shoot the first rabbit I would run into. I have never killed a deer yet, you understand. I just couldn't hold back. I am about to waste some of my ammunition. You talk about IDA. We will repeat this 50 times before we finish with IDA. You talk about cutting the percentage back. I am not interested in the percentage. I am interested in what you are giving IDA. You started with a request for $61 million. You jump it after 3 years to $104 million, then to $160 million, then $320 million.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Let's look at the record. Why don't you fly to London or possibly France and go into the Parliaments and listen to those people arguing to put up their 12 percent against our 40. You know what their argument is? "If we put up 12 percent we get 40 percent from the United States". Do you know who gets most of that money? The former colonies of the United Kingdom, where they have very strong and profitable trade ties. Remember that the United Kingdom indirectly becomes the recipient of not only their 12 percent, but our 40 percent. You and I know that two of their former colonies get 60 percent of every dime that is expended out of IDA, isn't that true?

Mr. HENNESSY. I think they would resent being called colonies.

Mr. PASSMAN. I said former colonies. Aren't they former colonies?

Mr. HENNESSY. They certainly are.

Mr. PASSMAN. What is to be resented about referring to them as former colonies? I guess the ties are much closer to the United Kingdom than they would be to the United States, wouldn't they?

Mr. HENNESSY. I am sorry, sir.

Mr. PASSMAN. The ties of the former colonies would be closer to the United Kingdom than to the United States.

Mr. HENNESSY. I think they purchase from whoever sells them the cheapest goods.

Mr. PASSMAN. Look at the statistics and don't guess. Pakistan and India get 60 percent of all the money disbursed out of IDA.

Mr. HENNESSY. 52 percent right now.

Mr. PASSMAN. 60 percent was the figure you gave us last time.

Mr. HENNESSY. A couple of years ago.

Mr. PASSMAN. It could go to 80; 60 percent was the last figure you gave me. Isn't that correct, until this year?

Mr. HENNESSY. I think it was 2 years ago. Last year it was down to about 52 percent but you are right.

Mr. PASSMAN. I believe that Pakistan is a noncontributing member to IDA aren't they?

Mr. HENNESSY. Why?

Mr. PASSMAN. They put in $1 and draw out $52, don't they?

Mr. HENNESSY. Obviously that is the purpose of the Bank; that is, to have them make a contribution; but while they are in an eligible role as a borrower they can borrow funds from the Bank.

Mr. PASSMAN. We turned around and gave Pakistan the money, made them a grant to buy their share into IDA, so they could become a recipient, and for every $1 they put in they drew out $52. If you move over to India we did the same thing. We gave them the money so they could pay in their dues as a grant. Now for every $1 they put in they draw out $44. I would love to belong to a club like that, wouldn't you.

Mr. HENNESSY. If I had to pay the $40 back I think I would make sure I was using it well but I think the $40 to $1 is not the percentages, at least in our analysis.

Mr. PASSMAN. How are we going to reconcile this difference, whether it is a bank in your hometown or in my hometown? They go in with a capital structure. They pretty much limit their operations to their profits. What you people are trying to do is go too far too fast, instead of setting up an account on the basis by which you can operate with the capital and not keep asking for new funds. Why wouldn't you give some thought to that? Why every year must we come in for additional large contributions to the same international organizations?

Mr. HENNESSY. I think part of it is in the items you read to us, that the needs are there. We obviously can't plug all the needs. I think one analysis shows needs of $15 billion a year.

Mr. PASSMAN. In the past it has been said that you made great improvements, whereas the record shows just the opposite. Do you realize if we had some way of turning all the wealth of America into money, every bit of it, and started dividing it with all the other nations of the world you could only increase their standard of living by a small percentage. Why must we bankrupt ourselves and destroy this Nation that we have built for all the other many nations around the world? I wish you would handle this bill for me this year.

SOUCES OF IDB FUNDS

What is the total capital structure of the Inter-American Development Bank for paid-in capital, from all sources? What has been paid in?

Mr. STERNFELD. Mr. Chairman, paid-in capital has been $3,697 million, of which the United States has put in——

Mr. PASSMAN. Let's get it all together and then go back and get the divsion. That is both windows.

Mr. STERNFELD. Those are both windows.

Mr. PASSMAN. And how much?

Mr. STERNFELD. Both windows it is $3,697 million.

Mr. PASSMAN. What percentage have we paid in?

Mr. STERNFELD 66.4 percent.

Mr. PASSMAN. Of the total?

Mr. STERNFELD. Of that total, both windows.

Mr. PASSMAN. As we had agreed earlier until Canada came in, by solicitation I am sure, the United States was the only nonrecipient of these funds. You may have given them the money, how do I know, but the other donors are actually the full recipients; is that correct?

Mr. STERNFELD. Until Canada arrived; that is correct.

Mr. PASSMAN. We have made the record. You know why they are in there.

Mr. STERNFELD. We are trying to get 17 others as Mr. Hennessy said.

Mr. PASSMAN. How much do you have undisbursed?

Mr. STERNFELD. The undisbursed amounts from both windows were $2,280 million of which dollars is $1,842 million and the Latin American currencies, $438.

Mr. PASSMAN. Let's get the grand total. You add to it the local currency; do you not?

Mr. STERNFELD. Yes; I included that. That is $2,280 million.

Mr. PASSMAN. How long has the Inter-American Development Bank been in operation?

Mr. STERNFELD. Since 1959, when it was established.

Mr. PASSMAN. So over 14 years of the $3,697 million, you have only disbursed about 40 percent of the capital paid in; is that correct? Use your own figures.

Mr. STERNFELD. There have been repayments, sir.

Mr. PASSMAN. I am looking at the net disbursement, put in on that basis. Let's first get this percentage.

Mr. STERNFELD. You asked for paid in, and perhaps I was taking your words very literally. There is callable capital, which we have subscribed to, which we haven't actually paid.

Mr. PASSMAN. I am talking about the amount that has been paid into the Bank and the amount that has been disbursed against that amount.

Mr. STERNFELD. The loan disbursement in this Bank have been out of the two windows and have totaled $2,551 million.

Mr. PASSMAN. When did you go in business; 1959?

Mr. STERNFELD. 1960 you could say.

Mr. PASSMAN. In 14 years you still have undisbursed one-third of the accumulation for a 14-year period, is that correct? It is simple mathematics I should think.

Mr. STERNFELD. Roughly that is correct.

Mr. PASSMAN. Aren't you pyramiding these funds?

Mr. STERNFELD. No, sir.

Mr. PASSMAN. I don't see how you can say no, if you have one-third of all the capital that has been paid over 14 years and still they are undisbursed.

Mr. HENNESSY. It is the unobligated amount that is important.

Mr. PASSMAN. I am familiar with what you mean. Yes; you get these things obligated. Sometimes you are obligating projects 10 or 15 years in advance of completion; aren't you?

Mr. HENNESSY. Seven years I believe is about the maximum in the Bank, but some of the river basin projects here in the States take a lot longer.

Mr. PASSMAN. Let me tell you, my friend, you had better get your statistics right. Here in the States you get just one slice of money at

a time. You don't get all that money. If you have a $100 million project, you are darn lucky to get $6 million cash 1 year. Next year you may get $2 million. The way you people operate, you want all the money paid in for a project when it is started.

We are very, very lucky to get one little slice each year. Do you know how long it takes to complete a public works project in America, where we have the greatest engineering force in the world, the Corps of Engineers? On a flood control project, it takes an average of 17 years, 11 months. You ought to realize how hard it is to get a project in America. It takes 17 years, 11 months to get a flood control project started and completed, and here you people are having projects funded, cash on hand 7 years in advance. What a contrast.

Mr. HENNESSY. I think they are letters of credit. They are not really cash. They draw on them like the highway trust funds.

Mr. PASSMAN. It is still full funding. The money is paid in.

Mr. HENNESSY. That is correct. We wouldn't want them to start a project if they didn't have full funding in this sense.

INVESTMENT IN U.S. GOVERNMENT SECURITIES

Mr. PASSMAN. Let's look at one of your international organizations, the Asian Development Bank. They came in here with one of these stories about the great good they were going to do. We gave them a grant. We went out and borrowed $20 million from the American taxpayers and gave it to the Asian Development Bank. About 3 months later we borrowed the same $20 million back from them at 6 percent. Are you familiar with that?

Mr. HENNESSY. We made a capital subscription.

Mr. PASSMAN. I know, you can jazz it up any way you want to but it follows, nevertheless, that we gave them a $20 million grant.

Mr. HENNESSY. When they first started they needed capital.

Mr. PASSMAN. Am I making a statement of fact? In just a few months we borrowed the same money, $20 million, back from them. Now, chapter 2, Thailand is a member and a recipient of the Asian Bank. They built up $1 billion foreign exchange reserves which they had no need for. They met all their commitments to commerce. Didn't we go out there and borrow $100 million from Thailand at 6 percent due in 4½ years, and that $100 million note will come due July 2.

Mr. HENNESSY. The U.S. Government?

Mr. PASSMAN. I will bet you $100 to 30 cents. Have you got any money on you? Is that right?

Mr. HENNESSY. Yes; apparently they invested part of their reserves.

Mr. PASSMAN. I want to put that in so people will know really how stupid we are. My apologies, if I have been a little harsh, but somewhere along the way something has to be done. It has to be done, and we have to state these factual statistics.

[Discussion off the record.]

UTILIZATION OF IDB FUNDS

Mr. PASSMAN. Last year we provided the Inter-American Development Bank with $193,380,000 for the callable capital and $225 million for the funds for special operations. Could you tell the committee if all these funds will be fully utilized before the end of fiscal 1973?

Mr. HENNESSY. I defer to Mr. Sternfeld.

Mr. STERNFELD. No, sir. The fund for special operations funds will be fully utilized before the end of calendar year 1973. I would expect that will be also true about the ordinary capital.

Mr. PASSMAN. I didn't get that first statement. It would be what?

Mr. STERNFELD. The first statement was that the $225 million you asked me about, the fund for special operations, that would be committed before the end of calendar year 1973.

Mr. PASSMAN. Before calendar year 1973?

Mr. STERNFELD. Yes, before December.

Mr. PASSMAN. We operate on a fiscal basis. I understand how you fund. Over half will be left as we close our fiscal year. You are going to go 6 months beyond the end of the fiscal year.

Mr. STERNFELD. We probably will go 4 to 5 months beyond the end of the fiscal year, beyond fiscal year 1973. We will go beyond that. Mr. Chairman, the situation is such that the United States cannot inform the Bank as to what funds it has available. The Congress does not appropriate the funds generally until the month of October and sometimes it has been later, and the Bank has had to plan on the basis of going beyond our fiscal years.

Mr. PASSMAN. We go out around the world and say to these nations, considering only the international financial institutions, "We are going to give you billions of dollars." There are no provisions to ever bring one dime of it back to the U.S. Treasury. That within itself is bad enough, but because of our wild spending abroad and at home we have destroyed a good part of the value of the dollar. Then these people come and say, "Well, now, that money you gave us won't buy as much as it would when you gave it to us. We want you to provide additional funds."

Then you come up here and ask the Congress to put up $2,250 million so as to bring the purchasing power of the dollar up to the same level it was when we gave it to them. Isn't it just about that way?

Mr. HENNESSY. Yes.

Mr. PASSMAN. You know I would vote for you tomorrow for Secretary of the Treasury. You are just as forthright as can be. Why don't you help us bring this confounded thing under control before it destroys all of us? I apologize again if it appears harsh, but I can't sleep at night worrying about these things. I don't have the capacity to actually get it before a sufficient number of people and it is worrisome. You have been so completely forthright I am going to stop my interrogation at this point and hope that we can, with your help, bring these programs under control.

Mr. LONG. Mr. Chairman, before we adjourn——

Mr. PASSMAN. I am not going to adjourn. I am going back around the table. I want you to then yield to Mr. Roybal.

[Discussion off the record.]

Mr. PASSMAN. Of course neither this committee nor this Congress can commit future Congresses.

Mr. HENNESSY. I understand.

Mr. PASSMAN. I am afraid we are in trouble today by people believing that we could. We had better cross that bridge when we get to it. We will discuss it all right. There may not even be a foreign aid program but we will discuss it.

Mr. HENNESSY. That is all we are asking. Thank you very much.

Mr. LONG. Thank you very much, Mr. Chairman.

We were talking a little while ago about the need for an audit, and your feeling that such an audit was not necessary because the Inter-American Development Bank can be depended upon to deal in a prudent bankable way with its loans and its financial affairs generally. I have here a statement by the Comptroller General to the Congress made on August 22, 1972. The title of this is, "The U.S. Systems for Appraising and Evaluating the Inter-American Development Bank Projects and Activities, Findings and Conclusions." I think you probably have it. I am sure your man has just given it to you, is that correct?

Mr. HENNESSY. No. I have a copy. You have the entire report there.

Mr. LONG. "U.S. officials," says the report, "have pursued a soft line"—I guess by "U.S. officials" they mean the Treasury—

or low profile approach in their dealings with the IDB and its members. For the most part the United States has not done much more than agree to International Development Bank proposals put before it, or merely advise International Bank of a contrary or different U.S. view on a proposed project or transaction. Though U.S. officials privately have opposed loans behind the scenes, the United States has never voted against any loan proposed by IDB's President. On other issues the United States has not fared well. U.S. officials have been aware of persistent problem areas attending IDB's operations. There lack of forcefulness in handling these issues has let them go unattended or only partially corrected.

As a consequence, IDB has acquired a reputation as a borrower's bank, that is the 22 Latin American members generally shape policies and dictate terms and conditions under which they borrow. A number of significant deficiencies reportedly existing in IDB's organization, administration and operating practices, including inadequate project planning and execution remain uncorrected. U.S. officials have long known that IDB has not adhered to any stringent criteria based on economic performance of borrowing countries. Lending practices have been somewhat flexible and permissive, with reference to fair share allocations of resources, which allows political pressures from the borrowing countries to influence the process of development lending.

Such practices do not necessarily result in the best use of IDB's resources. The executive branch does not have an adequately functioning system for appraising proposed activities, following through on their implementation, and evaluating the results.

I want you to listen to this:

GAO's efforts in making this review were considerably hampered by the Treasury Department's long delaying tactics and refusal to make certain records available for examination.

Then at the end, two short sentences.

The Congress may wish to consider whether the executive branch's low profile approach in dealing with IDB and its members is compatible with the magnitude of financial support the Congress is asked to approve for contributions to IDB.

That is No. 1.

No. 2:

Whether the executive agency's decision to withhold certain information from GAO and the Congress concerning the IDB activities is compatible with such level of support.

Mr. ROYBAL. What is the date of that report?

Mr. LONG. That is August 22, 1972.

To me that is a devastating commentary on the way you run your operations and it is hardly likely to make a Congressman want to

accept your idea that we can take your word for it that you are running your shop well and you don't need to have our GAO, the one agency we can depend on in Congress, come in and look your books over.

Mr. HENNESSY. We certainly don't say, "At any time come in and look our books over."

Mr. LONG. Looking over the books of IDB.

Mr. HENNESSY. On this particular one we did, although I am not sure it is of interest to this committee but we did have joint testimony with the GAO which went at quite some depth into all these allegations before the House Foreign Affairs Committee Subcommittee on Inter-American Affairs on September 21, with some 100-odd pages here and I think what you notice is a lot of general inuendo but there is nothing specific.

There are a lot of general statements. We asked for specific cases. I think what we did find was that these are very few and far between and where there were specific recommendations made by the GAO they were adopted and they have been implemented and that it was what I would say is a very general and a rather negative approach which completely overlooked the main thrust of the Bank's operations.

In reading it you get, I will readily admit, quite a distinct impression and I think that in terms of GAO's own appraisal of the post-evaluation and control system and the general organizational tightening up that has occurred since the August date of that report, I think you will find there has been sufficient improvement but I would object very strenuously to the general tone of that report.

Out of, I think, some 150-odd pages of the GAO report they had three specific recommendations and those three specific recommendations we adopted and put into effect.

Mr. LONG. I wouldn't expect you to like the report very much. I wouldn't anyway. If this were the kind of report put out by some agency when I was coming up for election I would feel pretty unhappy about it.

I just want to say that I don't think it provides very strong support for your idea that we don't need the GAO, our watchdog agency, making very careful continual scrutiny and review of what goes on in the Inter-American Development Bank.

Mr. HENNESSY. We are all for it. It is the method of doing it I think we are discussing. If I could read into the record two quotes from Mr. Stovall of the General Accounting Office, Director of their International Division, it might be appropriate here.

On July 1 he stated before the Banking and Currency Committee, and I quote:

> It would be contrary to the concept of participation in an international organization for the many participating nations individually to seek direct access or audit authority which would inject them into the internal administration and operations of the international organization.

In response to a specific inquiry from Congressman Brown he also added:

> I think that our position is clear and we do not think it is appropriate for each participating country to make audits.

Again in these hearings to which I have just alluded in September 1972, in hearings before the Subcommittee on Inter-American Affairs, Mr. Stovall said, and I quote again:

> We have in prior testimony taken the position, and we would continue that position, that our authority and interest lies only in relation to examination of U.S. agencies and we do not seek, nor would be support, any legislation seeking to place GAO in the position of trying to audit an international organization.

But I would agree with you, Dr. Long, in that the audit through the Treasury—this was a first, it was the first audit of an international organization by the GAO—there were areas of difference on how to provide them with documents and the flow of information and I think this year we have provided more information than we ever have in the past.

I think you can always improve that but it is a question of how you approach it, the mechanism, the process in which you do the audit, and I think that is what we are discussing not that the full information that the Bank has is not available to the Congress or to the GAO. That is the fundamental issue as we see it.

CONFIDENTIALITY OF INFORMATION

Mr. LONG. Well, of course, the GAO says here quite clearly:

> GAO's efforts in making this review were considerably hampered by the Treasury Department's delaying tactics and refusal to make certain records available for examination.

You yourself got through saying a little while ago that you were unwilling to make the information available to GAO, but only to Congress. That means of course that when Congress asks the GAO to make a report they can't get the information that is going to help us through our interrogations and so on until after you have come before us and given information, and, of course, it is very hard for us to know what to ask if we hadn't the prior help of GAO, unless they had gotten it beforehand.

Why are you so unwilling to give GAO the information that it asks for when we have instructed them to make studies of effectiveness of your operation?

Mr. HENNESSY. As we said in these other hearings, we strenuously rejected that claim by the GAO in terms of information, the Bank information. We presented them with a mountain of information that went up to the ceiling. Quite obviously the delaying tactics to which they referred there are that the people working on these problems could not give full time to the GAO.

The distinction I make is, and to which you were referring earlier, when they ask us to implement a recommendation, it is that information we are providing directly back to the Congress. We are not saying we don't give any information to the GAO. They got a room full of information.

They didn't get it as fast as they would like but everyone down there is working on 25 other projects and it was a new area.

I will admit for the record very clearly that there are internal memorandums, some of which we were discussing concerning different operations, that we thought perhaps didn't apply.

They had to do the exchange stabilization fund and some other operations. We have had a period of trying to define what the role and nature of an audit of this type was. It was the first of its kind. I am sure on successive ones there will be better understanding on both sides.

But the substance of the issue is they get all the information they need. The concrete recommendations they made have been adopted, implemented, and will be continually reported back directly to the Congress.

Mr. LONG. That is what you are saying now. That is not what the GAO is telling us at this point. These are hearings before the Subcommittee on Inter-American Affairs of the Committee on Foreign Affairs, House of Representatives:

Mr. FASCELL. You did not get the minutes of the National Advisory Council meetings and you did not get some of the consultant reports of the IDB; is that correct?

Mr. BROGAN. We did not get the minutes of the U.S. Executive Director's meetings and we did not get a consultant study that was performed in 1971 which we felt would have been valuable assistance and there were some progress reports that were prepared.

Mr. FASCELL. There were IDB materials available to the U.S. Executive Director but not available to the GAO?

Mr. BROGAN. That is right; progress reports which disclosed what was being done on some specific project in the field.

Mr. HENNESSY. Could I quote from that same report, sir. This question was asked by Mr. Fascell, the precise one you are getting after:

Mr. FASCELL. Mr. Stovall, getting back to the question of accessibility by GAO, you did get reports from the Treasury without any difficulty; is that correct?

Mr. STOVALL. I would like to say for the record, Mr. Chairman, that these are the exceptional things. These are the minority items, the relatively few things we could not get. We got a lot of information from Treasury and I would like to express my appreciation for that that was made available.

Mr. LONG. You can hand a person a mountain of information and withhold from him some of the key things that he needs.

Mr. HENNESSY. They discussed three things as I heard the quote. One was a consultant's report. As you know, a consultant's report involves a situation like that between a patient and his doctor. I think Booz, Allen considers, and we would certainly support that view, that if it becomes a public document their ability to function properly as a consultant is diminshed. However, we did provide complete excerpts and recommendations but not the report itself to the GAO.

We thought that was entirely proper in keeping with the client-consultant relationship and to be able to have the benefit of that type of management consultant. They have to maintain that client-consultant relationship.

Mr. LONG. In these days when Government is being asked increasingly to do its business in the open—these hearings never used to be held in the open; they are now and I think it is a great step—how can you ask that taxpayers' money that is going to hire consultants, to provide information to GAO and to Congress, should be held in some level of confidentiality?

Just what right do you have to say that the information on the taxpayers' money should not be available to everybody?

Mr. HENNESSY. I am not saying that, Mr. Chairman. What I am saying is that the recommendations of the report were fully made. The

report itself was not provided, the conclusions of the report were provided, and that is kind of a fine line of distinction, but I think it maintains the client-consultant relationship that is necessary so that this process can continue in the future.

There is, I guess, a difference between the views of the GAO and ourselves in the area of the executive directors. Discussions at the Board and discussions of——

Mr. LONG. I will be through in a minute, Mr. Roybal. I can read one sentence that shows one thing and you can read another sentence that shows something else, but I do think it is very significant that here is a summary, finding and conclusion, which wraps up the study by the Comptroller General of the IDB and the system for evaluating its projects. They are very simple.

> Congress may wish to consider whether the executive agency's decision to withhold certain information from the GAO and Congress concerning IDB activities is compatible with such level of support.

Now, this is "taking one consideration with another." This is a general, balancing, conclusion. I would hope that you would get the message here today and that is that you folks are just not going to prosper in this multilateral lending institution level unless Congress can get the same kind of information that we are expected to give to the people on our own activities.

Everything the American Government does is pretty much out in the open. It is getting increasingly so. I think this is the only way you can run a country. I don't think that you can ask that the multilateral institutions be allowed something less than that level of full disclosure and still continue to grow and grow and grow; and that is to say you are asking more and more that a whole aid program be turned over to multilateral institutions. Of course to the Congressmen, including me, this means that this is one more end run around the Congress. This is one more attempt to get away the oversight and the appropriations process.

You might get something through this year but you never can tell what will happen in a given year.

Mr. HENNESSY. Let me say we understand your concern and I think we have tried to be responsive while at the same time taking into account the multilateral nature of the banks and providing information with some editing in the case of this consultant's report.

There may be ways in which we can improve it. I think we have improved it in the past.

Mr. LONG. I think it would be a good idea. Of course, nobody in politics can ever admit he is wrong. I understand that a good politician never gives a clear target to anybody, and I don't blame you for not wanting to come out and admit that perhaps you have been less than fully forthright to the GAO but it might be a good idea to think these things over for the future.

Mr. Hennessy, on page 2 of your statement you say, "Today they—the developing countries—provide raw materials, as well as manufactured and semimanufactured products, which are vital to the continued vitality and noninflationary expansion of our economy."

With what manufactured and semimanufactured products do LDC's supply the United States which are vital to our economy?

Mr. HENNESSY. I had raw material mainly in mind when I spoke of imports from LDC's which are vital to the continued vitality and noninflationary expansion of our domestic economy. However, there are specific examples of semiprocessed and processed products which are important to us. Taiwan, for example, imports lumber from Indonesia and exports plywood to the United States. Canned or processed meat is another example. At this particular time, we are, of course, very much interested in increasing the available supplies of a wide range of materials and products, many of which are from the developing countries.

Mr. LONG. Mr. Hennessy, by your arguments on the topic of "Why have foreign assistance?"—page 1–3 of statement—you imply that the United States aids developing countries for essentially three reasons: (*a*) to obtain raw materials—page 2—(*b*) to obtain the votes of developing—page 3—countries on international trade and monetary matters; and (*c*) to provide social infrastructure so that our private investment can rush in and develop these countries—page 3.

Are these the best self-interest rationales you can develop for foreign assistance?

On pages 2–3 of your statement, you use the concept of "interdependence" several times. Cannot stronger rationales for foreign aid be worked out through a systematic development of this concept?

Mr. HENNESSY. It is in our own national interest to promote economic growth and stability in the developing countries. This interest takes the form partly of access to raw materials and other products important to our own economic well-being, the expansion of markets for products made in the United States, and the development of economic infrastructure which is helpful to overseas direct investment by U.S. companies. These factors help to point up the fact that there has been an increasing economic interdependence between the United States and other countries including the LDC's. There is every indication that this process of interdependence will continue into the future and the rationale of self-interest will become very strongly linked to this concept of independence.

Mr. LONG. Are there agreed-upon categories among IDB recipients for relatively less developed and relatively more developed countries who are recipients of IDB loans from the soft loan fund?

Mr. STERNFELD. The Bank has analyzed economic and social indicators of the member countries and has established four categories based on each country's level of economic and social development and its potential for accelerating the development process. The following indicators are used to establish the categories: GNP, per capita GNP, population growth, investment coefficient, growth of per capita GNP, life expectancy, infant mortality, literacy, debt service requirements, and national reserves. The four categories are: relatively more developed countries—Argentina, Brazil, Mexico, Venezuela; intermediate countries—Chile, Colombia, Peru; insufficient market countries—Barbados, Costa Rica, Jamaica, Panama, Trinidad and Tobago, Uruguay; relatively less developed countries—Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay.

Mr. LONG. What are the criteria for allocation of soft loan funds?

Mr. STERNFELD. In general, fund for special operations loans are made for highly important but slow-yielding projects, for example, education, agriculture, urban development. The expectation is that such financing will stimulate the country's own efforts in these fields. However, in accordance with the Bank's recently adopted policy of preferential treatment for lesser developed countries, in such countries FSO funds may also be provided for projects with higher economic returns and shorter pay-off periods. FSO may also be used for projects in relatively less developed regions in member countries for programs and for projects directly benefiting low-income sectors. Financing of projects which serve two or more member countries may be eligible for FSO in order to induce investment for integration in those cases in which identifiable benefits accrue to other countries which bear little or part of the costs.

With regard to the allocation of the FSO resources, the management, as part of the preferential treatment, established progressively decreasing targets on the FSO proportion going to the relatively more developed countries. These limits are: relatively developed countries—40 percent in 1972, 30 percent in 1973, 20 percent in 1974. At the same time, the Board set a floor for the proportion which must go to the lesser developed countries. Relatively less developed countries must receive at least 30 percent of the FSO lending, beginning 1972, and it is expected that this proportion will gradually increase. The first year under this new policy was successful and the targets were surpassed. A reversal from the past took place and the larger countries received 30 percent of FSO lending and the lesser developed countries received 49.6 percent.

Mr. LONG. In what specific instances has the IDB had success in bringing about land reform?

Mr. STERNFELD. It is the borrowing country, not the Bank, that bears primary responsibility for bringing about land reform. However, to complement and accelerate national efforts, the Bank provides technical assistance and loans for various aspects of agrarian reform. Specific examples are: technical assistance to El Salvador for the preparation of new agrarian reform legislation; a series of studies of land tenure conditions carried out by the CIDA (Comité Interamericano de Desarrollo Agrîcola) in seven countries—Argentina, Brazil, Colombia, Chile, Ecuador, Guatemala, and Peru; loans to Mexico for irrigation expansion and control aimed at the small beneficiaries of the agrarian reform (ejidatarios); loans to the Colombian Institute of Agrarian Reform (INCORA) for colonization and infrastructure; a loan for the Venezuelan comprehensive agricultural development program (PRIDA) to consolidate the National Agrarian Institute's settlements by providing complementary credit, research, and extension.

Mr. LONG. Mr. Sternfeld, on page 6 of your statement, you mention that administrative expenses were "only 2.9 percent above those for 1971." What were total administrative expenses?

Mr. STERNFELD. For 1972 they were $30,093,938.

Mr. LONG. What were total administrative expenses as a percentage of total obligations? Of total disbursements?

Mr. STERNFELD. For 1972 the total administrative expenses represented 3.7 percent of the level of obligations and 6.3 percent of the disbursements.

Mr. LONG. Would you provide for the record the following figures for the past 10 years? Total administrative expenses, total obligations, total disbursements.

Mr. STERNFELD. Yes, sir.

[The information follows:]

IDB ADMINISTRATIVE EXPENSES, TOTAL OBLIGATIONS, TOTAL DISBURSEMENTS, 1962–72

[In thousands of dollars]

	Administrative expenses	Obligations	Disbursement
1962	7,397	329,393	65,282
1963	8,660	258,853	141,008
1964	9,949	299,333	198,062
1965	11,692	373,473	182,161
1966	14,167	396,122	211,829
1967	16,748	496,428	242,527
1968	19,195	430,829	290,926
1969	21,859	631,505	392,189
1970	25,349	644,135	427,638
1971	29,336	651,765	459,389
1972	30,094	807,173	478,654

OPERATIONS OF THE IDB

Mr. ROYBAL. Mr. Chairman, I made reference to the GAO report you mentioned earlier last year and I was told then that the recommendations made had already been put into effect and that everything was going to be all right.

However, I remember that I did serve on the Committee on Foreign Affairs at the time that this agency was discussed. I remember also that there was great criticism of the way the agency was run.

I have been a friend of your operation since the very beginning. I consider myself a friend today and I don't agree that all the criticism is valid, including some criticism that I may have to make. On the other hand, there is some criticism that is definitely valid and somethings that can and should be corrected and a great deal of that is in that report even though it might have been made in August of 1972.

So many things have not been done. It seems to me that if funds are going to be made available through this committee every effort should be made to correct some of these things.

I can understand the GAO's report and understand their reluctance to name names and to state definite situations. I know the situation with regard to the bank at the time that a previous president was in complete control. I know what happened then and I hope the same thing it not happening again.

In other words, what I am saying is that I hope that the Latin American member nations don't completely dictate policy as they did in the past. Control was not one of the functions of the U.S. representative but of someone else. I hope those corrections have been made.

One other criticism was with regard to the auditing procedures of

the bank. No one really knew what was happening and while the congressional committee was asking for cost analysis and everything else, we never really got them.

One of the other recommendations that was made, before 1972 was that there was a great need for policy review. I don't know whether that has ever been made or not.

Another recommendation was with regard to lending practices. We know for a fact that in the past your lending practices were not as kosher as they appeared to be on the surface. I think you know exactly what I mean. These are criticisms that you find in the report. If you read between the lines you know exactly what they mean, and it seems that some of these changes should be made if they have not already been made.

Now, how do we stand with regard to the lending practices of the institution? Is it still controlled by one man?

Mr. STERNFELD. No.

Mr. HENNESSY. I would say quite to the contrary and I would like to submit for the record a list of all the recommendations and innovations that have taken place in the last 2 years under Dr. Antonio Ortiz Mena, who was a distinguished finance minister for 12 years in Mexico and took over the bank 2 years ago.

[The information follows:]

MANAGEMENT IMPROVEMENTS AND POLICY CHANGES IN THE INTER-AMERICAN DEVELOPMENT BANK SINCE MID-1971

In March 1971, Antonio Ortiz Mena, then Finance Minister of Mexico, was elected President of the Inter-American Development Bank. Beginning at that time, President Ortiz Mena set in motion a program of various measures, some to have immediate effect, and others to have a longer range impact, but in total all looking toward the eventual reorganization of the Bank and of its policies to adjust it to the realities both of Latin America and the United States in the 1970's.

I. IMMEDIATE ACTION

1. Control of administrative expenditures

From its inception in 1961 to the present, the Bank succeeded in establishing itself as the regional development institution. During that time, it had been growing rapidly in accordance with the increase in its portfolio of projects. In 1961 the Bank began with a subscribed capitalization of 959 million U.S. dollars. In March 1971, the Bank's subscribed capital had increased to 5,091 million U.S. dollars, and the value of its loans, including those made with the resources of various trust funds, had reached a level of 4,156 million U.S. dollars. During this 10-year period of growth, the Bank's administrative expenditures had been increasing approximately on the average of 15 percent per year. On assuming the presidency, Mr. Ortiz Mena determined to restrict the growth of administrative personnel and expenditures, and increase the productivity of the Bank staff. Thus it was that the Bank's 1972 administrative budget was held to within 2.9 percent of that of the preceding year even though the costs had risen by a higher percentage. This policy of stringency and increased productivity will continue during 1973, primarily through the maintenance of personnel ceilings.

The significance of these measures to increase productivity becomes clear when one realizes that during 1972 the Bank was able to achieve a lending level of 807 million U.S. dollars—the highest of any year in its history and cumulatively, the Bank's portfolio rose to 5.5 billion U.S. dollars.

2. Mobilization of resources on capital markets

Beginning in mid-1971, a policy was adopted to make maximum use of the capital markets of the world to obtain resources for the Bank while at the

same time minimizing the impact on the strained balance of payments of the United States. Thus, during the 2 years 1971 and 1972 the Bank was able to obtain loans or place new issues in the capital markets of Japan and Europe amounting to 243 million U.S. dollars without any recourse at all to the U.S. capital market. At the end of 1972, fully 58 percent of accumulated borrowings have been placed in markets outside the United States. The program of new borrowings for 1973, in combination with efforts to add new members to the capital structure of the IDB, continues this policy of seeking to minimize the impact of the Bank's financial operations on the credit market and balance-of-payments situation of the United States.

These accomplishments have been realized by a combination of several measures. First, the Bank has adopted new policies, in accordance with accepted banking practice, to reduce the amount of its cash holdings in relation to its long-term commitments. This permits the Bank a broader flexibility in determining when, in light of the most favorable interest rate developments, the Bank should place its new borrowings on the market. Coupled with this, has been an intensive effort by the President of the Bank, personally, to promote the Bank's issues throughout the capital markets of Europe and Japan. In consequence, the Bank's issues have met with great receptivity in these markets. Moreover, the intensive promotion of the Bank in the financial circles of the industrialized world generally has led to several unique opportunities to obtain resources for the Bank's programs at terms more favorable than those that prevail on the market. Outstanding among these are the 20 separate financial arrangements under which the Bank has been able to obtain funds from contributing governments outside the United States for its development programs.

Increasing access to Latin American financial markets has also become an objective of the Bank's financial program. During the 2-year period 1971 and 1972, the Bank has been able to obtain directly from the central banks of Latin America, resources amounting to 77 million U.S. dollars which have been put into the service of development in the same region.

II. POLICY CHANGES

On entering the presidency of the Bank, Mr. Ortiz Mena also set in motion a review of the lending policies of the Bank in order to assure the maximum efficiency in the use of the Bank's "hard," or Ordinary Capital Funds (OC), and its "soft," or Fund for Special Operations (FSO) resources. The result has been a series of recommendations to the Board of Governors described below which have been put into practice for the program year 1972.

1. The criteria adopted provide for the member countries of the Bank be grouped according to their level of development, viz:

More developed (4 countries)
Intermediate level of development (3 countries)
Countries of limited market (6 countries)
Less developed (9 countries)

2. At least 30 percent of "soft" funds of the FSO committed in 1972 were to be allocated to the less developed group of countries, and this proportion was to reach 40 percent in 1974. These goals represent a significant improvement over the average of 23 percent of the Bank's FSO resources which these countries received in the period 1966–1971. The accomplishments of this policy are reflected in the lending program of the Bank for 1972, when the group of nine relatively less developed countries actually received almost 50 percent of the total allocation of the Bank's "soft" resources. On the other hand, the percentage of FSO lending to the larger and more advanced countries dropped from a level of 45 percent to 30 percent for 1972. It should be noted that "soft" lending for the larger countries is restricted. There is no doubt that this new policy on the part of the Bank is proving effective in increasing the flow of development resources to those countries who, in the past, for various reasons have been at a disadvantage in obtaining such resources.

3. While this new policy accorded longer grace periods and repayment terms to the relatively less developed countries, it also established the requirement that all repayments of FSO dollar loans be in dollars and not in local currencies. Previously, this requirement applied only to two countries: Mexico and Venezuela.

4. From the time of its establishment, the Bank has exercised leadership in evolving new techniques and approaches to meet the complex circumstances and obstacles to treating the economical and social problems of the lowest income groups in Latin America. During the past 2 years, the Bank has been able not

only to continue its loans for small farmer credit, rural potable water, and small irrigation systems, but has also been able to devise new approaches to the serious problems of urban development in the region as well as find concrete projects to promote regional economic integration in the hemisphere.

A. Urban Development

In the area of urban development, it has been recognized that traditional techniques have failed to reach the problems of the urban areas of the region where population is growing yearly at nearly 6 percent and where the great masses of the unemployed and underemployed are concentrated. A truly integrated, interdisciplinary approach is needed; and there is a great need of people trained in these approaches. During the past year, the Bank has made two loans totaling U.S. $44 million to finance a major urban development program in the eastern section of the city of Bogotá, Colombia, one of the neediest parts of that city. This provides not only for the physical but also for the human needs of the city; not only for the streets and water supply, schools and hospitals, but also for integrating into the planning of these facilities the needs of the poorest citizens for social services and, above all, employment and means of transportation between the low income sections of the city and places of employment.

B. Economic Integration

In pursuit of its long-standing policy to promote the economic integration of Latin America, the Bank has recently approved a U.S. $80 million loan to finance an integrated hydroelectric plant being built jointly by Argentina and Uruguay. This represents the most important economic integration project ever undertaken by the Bank. Moreover, the Bank has been taking steps to intensify its cooperation with the various subregional integration institutions such as the General American Bank for Economic Integration, the Andean Development Corporation, and the Caribbean Development Bank.

III. REFORM AND REORGANIZATION OF THE BANK

The third major area in the President's program for improvement was the internal administrative structure of the Bank. A management study by a U.S. management consulting firm was completed in 1972. This was followed by an intensive analysis of the recommendations and formulation of concrete measures.

1. One of the fundamental objectives of this reorganization has been to establish a more rigorous process for the selection of projects to be financed and their technical evaluation, as well as the expediting of these projects and programs in the borrowing countries. This has been accomplished through such measures as:

(*a*) The establishment of a special group of top management to function as a Loan and Technical Assistance Review and Evaluation Committee. This committee now regularly screens out loan requests when initial applications are submitted to insure they comply with country strategies and Bank policies.

(*b*) The creation of an independent Department of Project Analysis. The effect of this new department is to remove the technical and financial analysis of projects from supervision by those with day to day responsibilities for the negotiation of loans. This independence will enhance the importance of economic and engineering judgments in project development and execution, and in the analysis of the feasibility of a project.

(*c*) In a parallel fashion, the offices with responsibility for the preparation and negotiation of loans as well as the supervision of loans during the process of execution, have been merged and organized on a geographic basis with the Department of Operations.

(*d*) Complementary to the above, the Bank's field offices in the borrowing countries are being strengthened in order to permit a gradual decentralization of activities from the headquarters level, consistent with principles of sound management. By increasing the number of operations regularly performed at the field level, the Bank expects to enhance overall efficiency and expedite project execution.

2. A second major objective of the Bank's reorganization has been to do a better job in helping the member countries plan their economic and social development programs, program their investments, and prepare priority projects. The principal measure in this respect has been the reorganization of the Economic and Social Development Department to provide for improved economic studies of the countries, and a strengthened technical assistance program. These measures in

the headquarters will be matched by the steps taken to strengthen the field offices' capacity to perform in the analysis of country development needs, and in the appraisal and execution of technical assistance programs. Moreover, improvements have been made in the process of coordination with other international agencies which participate in the field of technical cooperation, such as the World Bank, AID, the U.N. development program, the Food and Agriculture Organization, and others.

3. The increasing scale and complexity of Bank operations have brought about need for improved systems of management control. A new Office of Controller has been established within the Office of the President with broad responsibility to assure that the Bank's activities are consistent with established policies, programs, procedures and directives.

IV. ONGOING MANAGEMENT IMPROVEMENT EFFORTS

The adoption of new policies and improvements in the organization and procedures of the Bank represent important advances in the efficiency and effectiveness of Bank operations to promote development in Latin America. These are the foundations upon which further advances and improvements which are now under intensive study and preparation can be built.

1. Master plan for an automated management information and control system

A format study looking toward the development of a comprehensive 5-year plan for information and control systems was approved by the management in 1972 and is now underway. This project, which will be completed in the summer of 1973, will define the requirements of the Bank for management and project information, as well as the most effective and efficient means of obtaining, storing, and retrieving that information. As the various systems within this master plan become implemented, not only will the normal efficiencies of data processing and telecommunications be achieved by the Bank, but by virtue of their integrated design, these efficiencies will be multiplied significantly.

2. Uniform application of policies and procedures

In late 1972, after an initial study, a plan was undertaken to standardize and communicate the Bank's operational and administrative policies and procedures in a comprehensive system of manuals. The plan proposes a consolidated effort on the part of all Bank units for the production of 21 manuals to be maintained thereafter on a permanent basis.

3. Unused project balances

In order to overcome a longstanding problem of residual, undisbursed loan and technical assistance balances, the Bank adopted a specific procedure providing for timely, automatic and unequivocal cancellation of a project's unused balance by an appropriate terminal date.

4. Project cost overruns

Over the years the Bank has become increasingly aware of recurring problems of cost overruns in loan projects. In order to identify the specific causes of such problems, and in turn to establish necessary safeguards, the Board of Executive Directors requested the management to undertake a detailed analysis based on actual experience. This study resulted in the identification of three weaknesses as the principal contributors to unforeseen cost increases: the timing of loan approvals, technical analysis of projects, and unrealistic budgetary provisions. In accordance with the study's conclusions, management has adopted the modifications in loan processing procedures to reduce the likelihood of overruns in future loan projects.

Mr. HENNESSY. I think there has been great improvement internally through a whole series of different changes. One is in the whole loan review process, where when a loan comes in the door instead of going up to the Board it has to go through a policy review committee chaired by the Vice President of the Bank, Mr. Henry Costanzo, and with other top policy people who at that time see if the loan gets over the first hurdle—that is to say does it qualify?

Then it goes through a whole series——

Mr. ROYBAL. Are those loans?

Mr. HENNESSY. Loans for all countries have to go through this process before they even get in the door now.

Mr. ROYBAL. And all regardless of the amounts?

Mr. HENNESSY. Regardless of the amounts.

Mr. ROYBAL. Because it was a policy in the past that only loans of over—what was it, $50,000?

Mr. STERNFELD. That was technical assistance, $50,000.

Mr. ROYBAL. $50,000, for technical assistance. It was still under the control of one individual at that time. It is no longer the case now, is that correct?

Mr. HENNESSY. I think some technical assistance is still under the control of the President and with subsequent review by the Board.

Mr. ROYBAL. Which the Board never reviews?

Mr. HENNESSY. Sir.

Mr. STERNFELD. Sir, the Board has a quarterly report and we review the action taken by the President. In response to that hearing before the other committee the United States proposed to the Board to take away this authority to approve technical assistance under $50,000 except in very limited circumstances. This was agreed to by the Board. There are about a half a dozen operations a year approved under authority of the President.

Mr. ROYBAL. I wonder if you wouldn't make available to each member of this committee and for the record changes that have taken place in the last 2 years under the new president.

Mr. STERNFELD. Yes, sir.

Mr. HENNESSY. They are very significant.

Mr. ROYBAL. That way we can compare what the situation was at that time and what it is today.

Mr. HENNESSY. Be glad to do that, sir.

Mr. ROYBAL. The way things are at the present moment the only thing we can quote is the GAO report which is most unfavorable.

Mr. HENNESSY. Be glad to do that.

Mr. ROYBAL. One other thing that I had in mind to ask is this: Will you supply for the record the loans in the last 2 years that have been made over and above the $50,000 category?

Mr. HENNESSY. Yes, sir.

Mr. STERNFELD. Yes, sir.

Mr. ROYBAL. Again to try to make a determination as to what the real purpose of these loans has been compared to your record of loans made prior to the 2 years.

Mr. HENNESSY. By country and by sector?

Mr. ROYBAL. I understand that you have such a report and it is very simple.

Mr. HENNESSY. Right; compared to the first 10 years versus the last 2.

Mr. ROYBAL. I would appreciate it.

Mr. STERNFELD. You mean the actions which the President has taken on his own?

Mr. ROYBAL. I am talking about all loans.

Mr. HENNESSY. The last 2 years compared to the first 10.

Mr. ROYBAL. Any action that the President has taken on his own would be separate and apart from the type of report I am trying to get before the committee.

Mr. STERNFELD. And we can report on that latter part, too.

Mr. ROYBAL. I would appreciate if you did both then.

That is all, Mr. Chairman.

[The information follows:]

IDB NONREIMBURSABLE TECHNICAL ASSISTANCE

	Number of projects			Amounts (thousands)		
	Total authorized	Authorized by President	Percent	Total authorized	Authorized by President	Percent
1968	79	62	78.5	$3.924	$1.392	35.5
1969	107	77	72.0	5.005	2.185	43.7
1970	83	61	73.5	5.048	2.113	41.9
1971	50	9	18.0	5.966	260	4.4
1972	59	15	25.4	6.188	396	6.4

TECHNICAL ASSISTANCE PROJECTS APPROVED BY THE PRESIDENT OF IDB 1971-72

Date	Recipient	Purpose	Amount
July 21, 1971	Municipality of Quito, Ecuador	Advisor, administrative and financial matters.	$48,000
Aug. 24, 1971	National Development Advisory Board of Argentina.	Preinvestment training seminar	47,300
July 21, 1971	IDB program	Investment training seminar	45,000
Do	Inter-American School of Public Administration (Getulio Vargas Foundation Brazil).	Scholarships	40,000
Aug 2, 1971	IDB program	Trnaslation and publication of study	1,300
Mar. 9, 1972	Presidency of the Republic of Bolivia and Ministry of Finance.	Technical assistance mission for financial administration.	9,400
Apr. 24, 1972	do	do	9,500
Apr. 17, 1972	University of Costa Rica	Study to evaluate regional universities	35,250
Do	National Board of Planning and Economic Coordination, Ecuador.	Physical study of northeast	35,000
Feb. 8, 1972	IDB program	Seminars on loan administration	37,200
Apr. 12, 1972	do	Course on IDB and other financial organizations.	44,800
June 12, 1972	Inter-American School of Public Administration, Brazil.	Training course in administration	48,90
Aug. 30, 1972	Ministry of the Interior, Brazil	Course in irrigation	2,778
June 9, 1973	Office of Planning and Budget of the Presidency, Republic of Uruguay.	Finance advisor for project analysis	8,600
Aug. 7, 1972	Ministry of Planning, Boliva	Finance advisor for social programs	9,800
Do	Ministry of Finance, Ecuador	Finance advisor for identifying development projects.	8,450
Aug. 15, 1972	Office of Planning and Budget of the Presidency, Republic of Uruguay.	Finance advisor for transportation needs	3,150
Oct. 25, 1972	Agriculture and Cattle Cooperative "Cafi-cultores de Bani", Dominican Republic.	Prefeasibility study in agriculture	27,000
Nov. 8, 1972	Barbados Development Bank	Agricultural and fishing credit program	20,000
Dec. 4, 1972	Office of Community Development, Dominican Republic.	Community development program	16,600
Oct. 2, 1972	Securities Commission/National Finance Corp. (CV/CNF), Ecuador.	Project evaluation	31,000
Oct. 27, 1972	ILPES/OAS/IDB/ISRAEL	Course in rural development planning	30,000
Dec. 5, 1972	Nacional Financiera, Mexico	Course in industrialization	48,900
Sept. 11, 1972	Ministry of Public Education, Honduras	Expenses for advisor to revise education program.	6,500
Sept. 14, 1972	Office of Planning and Budget of the Presidency, Uruguay.	Expenses for advisor to evaluate and prepare projects.	8,600
Oct. 19, 1972	Technical Secretariat of the Presidency and the Dominican Agrarian Institute, Dominican Republic.	Expenses for advisors on irrigation and agrarian reform.	7,000

IDB LOANS BY SECTOR AND COUNTRY

	Number of loans		Amounts (in millions)	
	1961–70	1971–72	1961–70	1970–72
Sector:				
Agriculture	140	17	$1,066.3	$217.0
Education	50	11	150.0	46.7
Electric power	44	16	576.0	397.2
Export financing	14	3	53.2	37.3
Housing	47	3	350.8	51.2
Industry and mining	123	11	620.6	192.5
Preinvestment	63	6	77.7	22.5
Tourism		2		35.0
Transportation and communication	56	17	684.4	266.8
Water and sewerage	85	11	486.2	109.2
Total	622	97	4,065.2	1,375.4
Country:				
Argentina	61	5	549.5	198.0
Barbados		2		3.8
Bolivia	28	7	102.1	54.8
Brazil	77	11	874.9	360.3
Chile	57	2	297.3	14.7
Colombia	55	7	373.6	132.0
Costa Rica	23	3	61.5	11.9
Dominican Republic	13	4	58.9	37.3
Ecuador	28	6	109.4	64.0
El Salvador	18	3	49.2	47.5
Guatemala	19	1	79.4	[1] (−1.5)
Haiti	4	3	12.3	11.1
Honduras	17	5	55.0	30.6
Jamaica	2	3	10.9	9.1
Mexico	55	7	531.4	182.5
Nicaragua	21	2	75.4	14.8
Panama	16	5	48.5	33.1
Paraguay	23	4	98.2	44.8
Peru	37	5	224.2	25.3
Trinidad and Tobago	5	4	8.9	20.7
Uruguay	24	1	99.8	9.9
Venezuela	29	4	269.0	62.0
CABEI	8	1	65.1	3.3
ADELA	2		10.5	
CAF		2		5.4
Total	662	97	4,065.2	1,375.5

[1] Loan 217/SF to Guatemala for $9,500,000 was canceled in 1971.

Mr. LONG. Mr. Coughlin.

SPECIFICS OF REQUEST

Mr. COUGHLIN. Thank you very much.

I am new at this and I must confess I am having a very difficult time making heads or tails out of the whole thing.

As I understood in earlier testimony the bank is funded now at about $3.69 billion; is that right?

Mr. HENNESSY. Mr. Sternfeld has all the figures. They have two sources. They really have, I guess, three.

Mr. COUGHLIN. The capitalization is $3.6 billion?

Mr. STERNFELD. That is the paid-in capital.

Mr. HENNESSY. There are two types. One is paid-in. We actually put in the money. The other is full faith and credit, where the Government guarantees the borrowings in private markets.

Mr. COUGHLIN. Both windows?

Mr. HENNESSY. Just the hard window comes from paid-in capital plus borrowing. Then you have the soft fund. This is the FSO and it is separate. The hard window is the same as a bank. They might issue

their own notes. Take General Motors. They have some paid-in capital. They go out and they borrow some more in the market.

Mr. COUGHLIN. The $3.6 billion is hard or soft?

Mr. HENNESSY. It is both hard and soft.

Mr. COUGHLIN. What is the total?

Mr. STERNFELD. That is paid in. In addition to that the bank has authority to borrow which is based on callable capital. It is a guarantee which we hope not to use and which to this day has never been used. From the United States as of this date, it has $1.7 billion worth of authority to borrow.

Mr. COUGHLIN. Of the $3.7 billion there is $2.2 billion which has not been used?

Mr. STERNFELD. Yes. There is $2.2 billion which has not been disbursed.

Mr. HENNESSY. To approve a loan today it takes 7 years to disburse it. But they are not going to approve a loan because they still have some undisbursed funds from that last loan.

Mr. COUGHLIN. Is that $2 billion just sitting there?

Mr. HENNESSY. It is a letter of credit. They can draw down as they need it, the member governments issue an open letter of credit, and they draw down on letters of credit as they need funds for whatever it is that they bought with the funds.

Mr. STERNFELD. Most of this money is still in the U.S. Treasury in fact. It has not been drawn down.

Mr. COUGHLIN. It is an obligation?

Mr. HENNESSY. Yes, it is an obligation. They made a loan against it, contractual obligation. They have drawn up a loan document, signed it, one signed by the bank and the other by the borrower.

Mr. COUGHLIN. The outstanding loan against $2.2 billion is undisbursed?

Mr. HENNESSY. That is correct but totally and completely obligated.

Mr. COUGHLIN. What you are asking for this trip is another $193 million in capital?

Mr. HENNESSY. Of which $25 million is going to be paid and the rest will be callable to increase their guarantee for borrowings in New York or Zurich, wherever it is.

Mr. COUGHLIN. What you added to the $3.6 billion and paid in capital now is just the $25 million?

Mr. HENNESSY. That is correct.

Mr. COUGHLIN. And the $168 million corresponds to what figure in toto over the 14 years?

Mr. STERNFELD. That is the $1.7 billion figure that I mentioned of callable capital we have subscribed to.

Mr. COUGHLIN. And the $500 million you are asking for in FSO compares to what kind of a figure over the 14 years?

Mr. STERNFELD. That $500 million compares to $2.2 billion which we have provided to date.

Mr. HENNESSY. Special funds that we provided.

Mr. STERNFELD. That we provided and the Latin——

Mr. HENNESSY. There is another $500 million on top of that, that is, the social progress trust fund. It should be $2.7 billion at the end.

Mr. COUGHLIN. So we have over 14 years provided $2.2 billion and this year you are asking for $500 million alone.

Mr. HENNESSY. That is right. It is a big jump. This grew out of the 1970 Punta del Este conference where the United States said they were going to put a billion over 3 years and Latins said they were going to put in half a billion. That was supposed to be $100, $450, and $450 million over 3 years. That was a large increase in these soft funds.

What has happened in actual fact has been instead of that schedule, because of cuts, the whole thing has been stretched out. Instead of the $100, $450, and $450 million by 1973 to which we agreed in April of 1970, the idea now is that with $500 million this next fiscal year and another $275 million the following fiscal year, over a 5-year period the United States would put in $1 billion, so it would go $50, $225, $500, $275 instead of $100, $450 and $450.

Mr. COUGHLIN. The $500 million that you are asking for this year which you say will have no budgetary impact in 1974——

Mr. HENNESSY. They don't draw that down.

Mr. COUGHLIN. Over a period of time will that be drawn down?

Mr. HENNESSY. Over a period of 10 years or something like that. It depends on how fast the project is disbursed. They build a dam or road or build a school and they approve the loan today and then they have to design the project—although the project is pretty much designed before they make the loan—then they have to import the materials and start building the road and that takes up to 7 years sometimes, the same as a highway project in the States or a subway project or something like that.

During that time there is a letter of credit open. As they need the funds they draw it down. Obviously from our point of view, we want them to make new loan commitments having funds available to them.

Mr. COUGHLIN. Thank you very much, Mr. Chairman.

Mr. LONG. Thank you, Mr. Coughlin.

Do you have any more questions?

Mr. ROYBAL. No more, thank you.

Mr. LONG. Very well, Monday at 1 will be the next meeting of this committee. The committee stands adjourned.

Thank you very much, Mr. Hennessy, for being so patient with us.

Mr. HENNESSY. Thank you.

MONDAY, MAY 7, 1973.

THE 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
DON BOSTWICK, EXECUTIVE VICE PRESIDENT
JOHN E. CORETTE III, GENERAL COUNSEL
J. PATRICK DUGAN, SENIOR VICE PRESIDENT AND TREASURER-CONTROLLER
JAMES K. HESS, DEPUTY TREASURER
NANCY S. PIGMAN, ASSISTANT TO THE GENERAL COUNSEL

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	Aug. 17, 1971, through June 30, 1972, actual	1973 estimate	1974 estimate
Program by activities:			
Loan program:			
Operating costs, funded:			
Interest on borrowings	86,864	72,865	108,885
Interest on participation certificates and debentures	73,815	148,973	214,976
Interest on advances under letters of credit	497	600	650
Administrative expenses subject to limitation	4,664	5,380	5,555
Other financial expense	−603	1,621	2,095
Other expenses	421	71	84
Total operating costs, funded	165,658	229,510	332,245
Change in selected resources [1]	1,153	−636	−770
Total obligations (operations program)	166,811	228,874	331,475
Capital outlay, funded:			
Equipment and services loans	1,052,594	1,565,354	1,681,566
Commodity loans	84,577	86,081	100,000
Medium-term discount loans	67,240	611,800	802,139
Short-term discount loans		600,000	942,236
Special foreign trade loans		25,000	50,000
Repurchase of loans	177,469		
Total capital outlay, funded	1,381,880	2,888,235	3,575,941
Change in selected resources [1]	493,565	1,270,571	1,176,775
Adjustments in selected resources (loan obligations)	551,495	956,864	1,488,863
Total obligations (capital outlay)	2,426,940	5,115,670	6,241,579
Total obligations (loan program)	2,593,751	5,344,544	6,573,054
Other: Purchase of equipment—capital outlay	41	100	100
Guarantee and insurance program:			
Operating costs, funded:			
Administrative expenses subject to limitation	2,206	3,058	3,100
Nonadministrative expenses	12	13	14
Total operating costs, funded	2,218	3,071	3,114
Change in selected resources:			
Guarantees	1,046,139	1,360,000	2,058,120
Short-term insurance	793,251	377,999	50,000
Medium-term insurance	31,858	125,001	125,000
Subtotal	1,871,248	1,863,000	2,233,120
Reduction for fractional reserve basis	−1,685,635	−1,397,250	−1,674,840
Total change in selected resources	185,613	465,750	558,280
Total obligations (guarantee and insurance program)	187,831	468,821	561,394
Total obligations	2,781,623	5,813,465	7,134,548
Financing:			
Receipts and reimbursements from: Non-Federal sources	−21	−21	−24
Loan program:			
Loans repaid	−904,947	−1,098,168	−1,957,834
Sale of loans with recourse	−227,700	−50,000	
Interest revenue from loans	−300,672	−374,177	−473,285
Guarantee and insurance program fees and premiums, net	152	14,416	−1,992
Recovery of prior year obligations, loan program	−551,600	−956,864	−1,488,863
Unobligated balance restored (available amounts withdrawn from the Government's budget):			
Authority to spend public debt receipts	−105,076		
Authority to spend agency debt receipts	−1,002,074	−310,315	
Unobligated balance available end of year:			
Authority to spend agency debt receipts	310,315		
Capital transfer to general fund		50,000	50,000
Budget authority (authority to spend agency debt receipts, permanent, indefinite)		3,088,336	3,262,550
Relation of obligations to outlays:			
Obligations incurred, net	796,835	3,348,651	3,212,550
Obligated balance, start of year:			
Authority to spend public debt receipts	4,107,488	4,256,569	4,133,704
Authority to spend agency debt receipts		495,926	2,349,338
Fund balance	3,051	9,645	10,000
Obligated balance, end of year:			
Authority to spend public debt receipts	−4,256,569	−4,133,704	−3,974,819
Authority to spend agency debt receipts	−495,926	−2,349,338	−4,232,081
Fund balance	−9,645	−10,000	−10,000
Outlays	145,234	1,617,749	1,488,692

[1] Balances of selected resources are identified on the statement of financial condition.

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	Aug. 17, 1971, through June 30, 1972, actual	1973 estimate	1974 estimate
Other services	412	363	424
Equipment	41	100	100
Investments and loans	2,426,940	5,115,670	6,241,579
Interest on portfolio certificates, etc.	160,573	223,759	326,256
Administrative expenses—see separate schedule	6,891	8,459	8,679
Total costs, funded	2,594,857	5,348,351	6,577,038
Change in selected resources	186,766	465,114	557,510
Total obligations	2,781,623	5,813,465	7,134,548

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
Administration:			
(a) Loan program	5,285	5,380	5,555
(b) Guarantee and insurance program	2,489	3,058	3,100
(c) Garage management	23	21	24
Total obligations	[1] 7,797	8,459	8,679
Financing:			
Obligations not subject to limitations	−23	−21	−24
Unobligated balance lapsing	416		
Limitation	8,190	8,438	8,655

[1] Includes $903 thousand in obligations subject to limitation incurred prior to Aug. 17, 1971.

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	Aug. 17, 1971, through June 30, 1972, actual	1973 estimate	1974 estimate
Personnel compensation:			
Permanent positions	4,854	6,077	6,209
Positions other than permanent	8	25	25
Other personnel compensation: Overtime and holiday pay	65	79	82
Special personnel service payments: Reimbursable detail	118	74	80
Excess of annual leave earned over leave taken	49	100	107
Total personnel compensation	5,094	6,355	6,503
Personnel benefits: Civilian	398	514	524
Travel and transportation of persons	221	270	300
Transportation of things	10	10	10
Rent, communications, and utilities	732	830	845
Printing and reproduction	110	125	130
Other services	208	227	234
upplies and materials	118	128	133
Accrued administrative expenses included in schedule for fund as a whole—see separate schedule	−6,891	−8,459	−8,679
Total accrued administrative expenses—costs			

PERSONNEL SUMMARY

	1972 actual	1973 estimate	1974 estimate
Total number of permanent positions	398	423	423
Full-time equivalent of other positions	2	2	2
Average paid employment	379	393	398
Average GS grade	9.2	9.0	9.0
Average GS salary	$14,903	$14,584	$14,784
Average salary of ungraded positions	$7,486	$7,609	$7,609

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
Equipment and services loans:			
Authorizations	2,210,913	2,788,000	3,850,000
Participations and cancellations	−72,368	−113,000	−50,000
Net authorizations	2,138,545	2,675,000	3,800,000
All other, excluding administrative expeneses:			
Authorizations	1,718,476	4,301,921	4,535,000
Participations, cancellations, and expirations	−149,883	−519,300	−685,000
Net authorizations	1,568,593	3,782,621	3,850,000
Total authorizations other than for administrative expenses	3,707,138	6,457,621	7,650,000
Financing: Uncommitted balance lapsing	3,616,537	866,054	
Limitation	7,323,675	7,323,675	7,650,000

Mr. PASSMAN. The committee will come to order.

We shall continue our examination this afternoon with another facet of the Foreign Operations Subcommittee appropriations budget requests.

We have before us the Honorable Henry Kearns, President and Chairman of the Board of Directors of the Export-Import Bank of the United States, Mr. Walter C. Sauer, First Vice President and Vice Chairman, and certain supporting witnesses.

Mr. Kearns, we will be very happy to hear from you at this time if you have a statement you would like to make to the committee.

GENERAL STATEMENT

Mr. KEARNS. Mr. Chairman, members of the committee, it is again a pleasure for us to appear before you to discuss the activities and operations of the Export-Import Bank.

I am particularly pleased to be able to be here at this time because I have recently returned from a trip abroad of more than 6 weeks during which I visited 10 countries plus Hong Kong, starting in Australia, going through the Western Pacific and returning via Eastern Europe through the Soviet Union and Poland. From several hundred conferences and meetings it has been possible to achieve first-hand knowledge of today's international trade situation, its challenges, opportunities, and problems. Discussions were held with heads of state, government officials, private bankers, and businessmen, and the composite reveals the opportunities for the United States in today's and tomorrow's world.

Since I appeared before this committee last year, we have observed a seemingly persistent U.S. trade deficit and the United States twice adjusted the value of its currency as related to other developed industrial countries. To some this forecasts only gloom and provokes dire predictions on the economic health of this nation. I dissent strongly from this view, and I do so based on the experience we have had at Eximbank over the last year and from my intensive discussions with buyers and sellers in the United States and abroad and with government and industrial leaders everywhere I went.

Certainly the U.S. trade deficit must be reversed—and as soon as possible. I am convinced that with the measures and efforts already

taken by the President to induce the major trading nations to develop a new world monetary system—one that will be realistic and fair to all—and to eliminate trade barriers and unfair trade practices which affect all trading nations, we will see in the immediate future an unprecedented period of trade expansion in which the United States can and must be a major participant.

In my considered view the United States stands on the threshold of its greatest trade opportunity of the century.

These factors provide the basis for my statement: (1) the volume of world trade is destined to accelerate significantly as industrial countries must import more primary products, including energy, and as developing countries improve the quality of life and emerge into the current productive era; (2) more private and public buyers will have the ability to purchase as a result of greater liquidity availability and vastly expanded credit facilities; (3) transportation and communications offer the means to market and deliver to a degree unknown before; (4) thorough inquiry reveals a very high respect for U.S. products, their quality and standardization, packaging, and service, and the full range of items produced by a multiplicity of companies is unmatched; (5) U.S. products are now price-competitive in nearly all categories and the inflation rates of competing countries tend to increase this advantage; and (6) services to buyers and suppliers were never better, giving the U.S. merchandisers a clear advantage.

All of these advantages converging at one time do indeed provide a golden opportunity and challenge. If we fail to fully exploit this unique combination of circumstances it may well determine the economic future of our country.

FISCAL YEAR 1972

Fiscal year 1972 showed a continuation in the growth of Eximbank's business, following the pattern of the 2 previous fiscal years.

The total value of export sales supported by Eximbank's fiscal 1972 authorizations rose to $9.5 billion, an increase of 38 percent over fiscal 1971 and more than triple that of just 4 years ago in fiscal 1969. Of the total $53 billion in export sales supported by the Bank since its inception in 1934, 41 percent has occurred in the past 3 fiscal years.

During fiscal year 1972 Eximbank's operations contributed an estimated $3 billion to the credit side of the U.S. balance of payments, as compared with $2.3 billion in the previous fiscal year. Thirty-one percent of the Bank's total lifetime contribution of $23 billion to the nation's balance of payments has come in the past 3 fiscal years.

Total new authorizations of loans, guarantees, and insurance during the year reached $7.2 billion, a 34 percent increase over fiscal year 1971.

Gross loan authorizations were $3.3 billion, an increase of 39 percent over the $2.4 billion in fiscal year 1971. This figure includes $2.2 billion in equipment and services authorizations, $85 million in commodity credits, and $989 million in medium-term discount loans. Although discount loan authorizations accounted for the largest single loan activity increase during the year, indicating an increasing use of this program by the private commercial banking sector in order to provide export financing for their customers, actual disbursements under this program during the year remained at a low level due to the relative ease of liquidity in the credit markets.

Guarantee and insurance authorizations totaled $3.9 billion in fiscal year 1972, consisting of $1.7 billion in guarantees and $2.2 billion in insurance. Insurance authorizations increased 36 percent over the $1.6 billion in fiscal year 1971, and supported a total of over $3.4 billion of U.S. exports. The significant gains in export credit insurance issued during the year reflect in part the significant progress made in this program as a result of the revisions in FCIA's operations and the restructured, simplified reinsurance arrangement between FCIA and Eximbank. Total guarantee authorizations increased 23 percent over fiscal year 1971, but the greatest increase came under the commercial bank exporter guarantees program, which rose an unprecedented 63 percent from the previous year. This is one of Eximbank's programs which has done the most to help small- and medium-size exporters, with the median transaction size being only about $142,000. The increase reflects a sizable increase in the actual number of transactions handled, participation in the program for the first time by 23 additional banks (for a total of 185 at June 30, 1972), plus numerous technical improvements in the program to make it increasingly flexible and responsive to the needs of the exporting community.

Eximbank's gross revenues in fiscal 1972 amounted to $346.1 million, a 6-percent increase over the comparable figure in the previous year. Net income for the year was $147.9 million, a 24-percent increase over fiscal 1971, from which the Bank again paid a $50 million dividend to the U.S. Treasury on its capital stock and added the remaining $97.9 million to its retained income reserve. From inception through the last fiscal year, Eximbank has paid a total of $806 million in dividends to the U.S. Treasury.

Repayment experience under all of the Bank's programs continues to be excellent. No loans were written off during fiscal year 1972, and claims paid under the guarantee and insurance programs, net of recovery, amounted to only $4.4 million for the year. There are some problems on the horizon, however, notably failure of Chile to honor any of its obligations in which Eximbank is involved. Efforts are underway to achieve an understanding and rescheduling that will minimize potential loss.

Eximbank continued throughout the year to review and revise its programs and operations to insure that the Bank could provide effective support, when proven necessary, for any kind of potential U.S. export sale and could do so in a timely manner.

The preliminary commitment procedure initiated in fiscal year 1970 is now in general use. Under this procedure, Eximbank will, upon request, outline in a preliminary commitment letter the terms and conditions of the financial support it will extend to a purchaser of U.S. goods and services. The applicant must provide information sufficient to enable Eximbank to appraise the technical, economic, and financial aspects of the proposed project.

In fiscal year 1972, 591 preliminary commitments were authorized representing potential exports of over $7.2 billion. Sales of $2.67 billion were actually supported by conversion of preliminary commitments to actual credits.

One of the most exciting developments at Eximbank has been the cooperative financing facility program which supports small- and medium-sized producers and buyers for transactions ranging from a

few thousand up to $1 million. Although this program was initiated less than 3 years ago, as of June 30, 1972, 171 CFF lines had been established in 42 countries. Virtually every significant market in the Free World now has one or more financial institutions willing and able to provide financing to purchasers of U.S. goods and services.

It is clear that these and other initiatives undertaken by the Bank have resulted in increased use of its facilities to support the growing volume of U.S. exports. Yet, we are ever mindful that we must keep our ear to the ground, both here in the United States and, most particularly, in the areas where our U.S. exporters encounter their stiffest foreign competition. We believe that Eximbank now provides to our exporters the best and widest range of credit support for their overseas sales of any country seriously competing with us; however, the international marketplace is constantly changing and we must be continually ready, with both responsive programs and adequate resources, to insure that the U.S. exporter can offer competitive financing in his sales package. In my opinion, competing industrial countries that have accumulated very large foreign exchange reserves, such as the Federal Republic of Germany, and Japan, will now use their newfound affluence to more vigorously use financing as a competitive tool.

FISCAL YEAR 1973

As the committee, of course, is aware, Eximbank is presently operating under a Continuing Resolution for the current fiscal year. However, that Resolution permits the Bank to authorize at the levels proposed in our regular fiscal year 1973 budget, which had been approved by both Houses of Congress.

For the first 9 months of fiscal year 1973, the Bank's gross authorizations amount to $5.5 billion, a 15.3 percent increase over the same period in fiscal year 1972. The actual number of transactions handled in the period, however, increased by about 1,200, or 36 percent, over the same time period in the previous year. Export sales supported by these authorizations total $7 billion, up 7 percent from last year's period, while the Bank's contribution to the credit side of the U.S. balance of payments, direct and indirect, is up 9 percent so far this year.

FISCAL YEAR 1974

Turning now to the budget proposal pending before you, Eximbank's fiscal year 1974 budget provides for a continuing high level of support of U.S. exports as follows:

$3.950 billion in net regular loan authorizations;

$2.8 billion in net medium-term and short-term discount loan authorizations;

$6.2 billion in gross guarantee and insurance authorizations; and

$8.655 million in administrative expenses.

The $3.950 billion of regular loan authorizations include $3.8 billion for equipment and services loans, $100 million for commodity loans, and a $50 million contingency for special foreign trade loans. The 1974 budget provides for up to $1.5 billion net medium-term and up to $1.3 billion net short-term discount loan authorizations.

The budgeted amount of new and renewed guarantee and insurance authorizations includes $3.2 billion for guarantees, $2.35 billion for short-term insurance, and $650 million for medium-term insurance. The increases budgeted for these programs over fiscal year 1972 and the current year's projected amounts again reflect the Bank's continuing emphasis on assuring maximum private sector financing of U.S. exports.

These activity levels result in a total limitation on new program activity of $7.650 billion for fiscal year 1974.

Although the $8.655 million requested for administrative expenses is a slight increase over the amount for the current year, the total authorized personnel ceiling remains the same.

You will note, Mr. Chairman, that the estimated authorizations for the current fiscal year and the amounts budgeted for fiscal year 1974 would result in charges against the Bank's present $20 billion statutory ceiling for outstanding loans, guarantees, and insurance of $16.5 billion at June 30, 1973, and $20.4 billion at June 30, 1974. We therefore intend to request from Congress an increase in the statutory ceiling to $30 billion. We believe that this increase in commitment authority, in conjunction with an extention of the Bank's life from the present expiry date of June 30, 1974, is essential at this time for the Bank to exercise its responsibilities under its mandate from Congress and to plan in an orderly manner for the increasing support to U.S. exporters which we believe it will be called upon to provide within the next few years. This is especially important if U.S. producers are to participate fully in the many very large primary product projects that are now in a formulative stage, especially in the field of energy production.

COMMUNIST COUNTRIES ACTIVITIES

As the committee is aware, in August 1971 the Congress amended Eximbank's enabling legislation, the Export-Import Bank Act of 1945, as amended, to permit the Bank to support U.S. exports to all Communist countries if the President of the United States determines that such support is in the U.S. national interest and so reports such determinations to the Congress. Yugoslavia, as you know, was eligible for and did receive such a Presidential determination of national interest in 1968 and thus U.S. exports to that country have benefited from Eximbank support since that time. However, since the congressional action in 1971, the President has made national interest determinations for Eximbank support of U.S. exports to three other Communist countries; namely, on November 22, 1971 for Romania, on October 18, 1972 for the U.S.S.R., and on November 8, 1972 for Poland.

In fiscal year 1972, Eximbank authorized $153 million in support of U.S. exports to Yugoslavia, and $11 million for exports to Romania. Through March 31 of the current fiscal year, total authorizations for exports to the four eligible countries have amounted to $229.4 million. This consists of approximately $91.7 million for Yugoslavia, $14.5 million for Romania, $22 million for Poland, and $101.2 million for the U.S.S.R. These fiscal year 1973 authorization will support approximately $364.8 million in U.S. sales.

I wish to emphasize that all transactions with these countries that are assisted by the Bank must meet Eximbank's standard worldwide lending criteria. They must be viable transactions, offer reasonable assurance of repayment, require Eximbank participation for consummation of the U.S. sale, and are repayable, with interest, in dollars in the United States.

Mr. Chairman, we believe that Eximbank's proposed budget for the next fiscal year represents the minimum which will be needed if the Bank is to really provide the U.S. exporter with competitive financing for his overseas sales to meet and beat the foreign Government-supported financing available to his principal foreign competitors, as the Congress mandated the Bank in the 1971 amendments to the Export-Import Bank Act. I do not mean to imply by this that Eximbank should be the primary source of financing for the U.S. export trade. Quite to the contrary; and let me reiterate, once again, that Eximbank, by law, is a backstop for the bulk of export financing which is, and should continue to be, provided from the private commercial sector. Every Eximbank program undertaken in the past 4 years has emphasized cooperation with private financing sources.

However, if the United States is to take advantage of the almost limitless opportunities now available to U.S. suppliers in the growing world markets resulting from the intelligent and forthright initiatives taken by the President recently to stimulate U.S. exports and reverse the U.S. balance-of-payments decline, the Government and the private business sector must take bold, outward-looking action. We should "make no little plans."

JUSTIFICATIONS

Mr. PASSMAN. Thank you for your statement. We will insert the justifications in the record at this point.

[The justifications follow:]

EXPORT-IMPORT BANK OF THE UNITED STATES

BOARD OF DIRECTORS

Henry Kearns, Chairman of the Board.
Walter C. Sauer, Vice Chairman.
R. Alex McCullough, Director.
John C. Clark, Director.
[Vacant], Director.

OFFICERS

Henry Kearns, President.
Walter C. Sauer, First Vice President.
Don P. Bostwick, Executive Vice President.
John E. Corette III, General Counsel.
J. Patrick Dugan, Senior Vice President and Treasurer-Controller.
Warren W. Glick, Senior Vice President—Financing.
Delio E. Gianturco, Senior Vice President—Exporter Credits, Guarantees, and Insurance.
Rosemary A. Mazon, Senior Vice President—Planning and Export-Expansion.
Joseph H. Regan, Secretary.

MEMBERS OF THE ADVISORY COMMITTEE

Hon. Allan Shivers (chairman), chairman of the board, the Austin National Bank, Austin, Tex. 78701 (term expires Sept. 1, 1973).

Ernest C. Arbuckle, chairman of the board, Wells Fargo Bank, 464 California Street, San Francisco, Calif. 94120 (term expires Sept. 1, 1973).

Stephen D. Bechtel, Sr., senior director, Bechtel Corp., 155 Sansome Street, San Francisco, Calif. 94104 (term expires Sept. 1, 1973).

William Blackie, chairman of the board (retired), Caterpillar Tractor Co., 100 N.E. Adams Street, Peoria, Ill. 61602 (term expires Sept. 1, 1974).

Walker L. Cisler, chairman of the board, the Detroit Edison Co., 2000 Second Avenue, Detroit, Mich. 48226 (term expires Sept. 1, 1973).

Paul L. Davies, senior director, FMC Corp., P.O. Box 760, San Jose, Calif. 95106 (term expires Sept. 1, 1973).

James R. Greene, senior vice president, Manufacturers Hanover Trust Co., 350 Park Avenue, New York, N.Y. 10022 (president, Bankers Association for Foreign Trade) (term expires Sept. 1, 1973).

Murray W. Miller, general secretary-treasurer, International Brotherhood of Teamsters, 25 Louisiana Avenue, NW., Washington, D.C. 20001 (term expires Sept. 1, 1974).

Allen P. Stults, chairman of the board, American National Bank & Trust Co. of Chicago, LaSalle at Washington, Chicago, Ill. 60690 (term expires Sept. 1, 1973).

FISCAL YEAR 1974 BUDGET

Eximbank's fiscal year 1974 budget provides for a continuing expansion to provide higher levels of support of U.S. exports.

Eximbank assists U.S. exports in four basic ways:

1. Making direct loans to foreign purchasers of U.S. goods and services;
2. Guaranteeing private sector U.S. export loans;
3. Insuring U.S. exporters against certain risks of nonpayment; and
4. Discounting, on an advance commitment basis, export loans made by U.S. commercial banks.

These four types of assistance, combined in different ways, have resulted in more than 20 export expansion programs, each addressed to a demonstrated need in the U.S. exporting community.

In order to adequately meet those needs in fiscal year 1974, Eximbank's budget requests: $3.950 billion for regular loan authorization; $6.2 billion in gross guarantee and insurance authorizations; $2.815 billion in net medium-term and short-term discount loan authorizations; and $8.7 million in administrative expenses.

The Bank's operations have resulted in an increasingly large positive impact on the U.S. balance of payments. During fiscal year 1971, repayments of principal and interest on the Bank's loans and guarantees, cash payments on export shipments supported by Eximbank's various programs, and overseas sales of loans resulted in a contribution of more than $2.3 billion to the nation's balance of payments. In fiscal year 1972, such amount increased to $3 billion. In fiscal year 1974, this positive contribution is expected to be $3.6 billion.

CONTRIBUTION TO BALANCE OF PAYMENTS

[In millions of dollars]

	Fiscal year—			
	1971 actual	1972 actual	1973 estimate	1974 estimate
Direct	[1] 2,226	[1] 346	1,343	1,368
Indirect	1,125	1,718	1,970	2,262
Total	3,351	2,064	3,313	3,630
Adjustment for Euro-dollar borrowing	(1,000)	1,000		
Contribution from regular operations	2,351	3,064	3,313	3,630

[1] Includes in-and-out effect of Euro-dollar borrowings and repayments.

REGULAR LOAN PROGRAM

Under the Bank's regular loan program exports of "big ticket" items such as nuclear power facilities, liquified natural gas projects, electric power equipment, communication facilities, and commercial jet aircraft are assisted.

In all cases, Eximbank's loan is a supplement to available private credit.

The purposes of this program are to supplement private sources of financing when the private source is unwilling or unable to assume the political and commercial risks under current conditions, to extend credit on terms longer than those private lenders can provide when such terms are warranted by the facts of the transaction, and to enable U.S. suppliers to provide terms on major projects competitive with those offered by government-sponsored export financing

institutions in other exporting countries. An Eximbank loan is authorized only when the Bank's Board of Directors has determined that Eximbank support is essential to finalizing the export sale.

In addition to equipment and services loans, the regular loan program for fiscal year 1974 includes $100 million for commodity loans and as in the past, a $50 million contingency for emergency credit authorizations.

Preliminary commitments

Under the Bank's preliminary commitment procedure Eximbank will, upon request, outline in a preliminary commitment letter the terms and conditions of the financial assistance it will extend to a purchaser of U.S. goods and services. The applicant must provide information sufficient to enable Eximbank to appraise the technical, economic, and financial aspects of the proposed project.

This program not only has been of great value to U.S. exporters in their export marketing efforts, but it also provides Eximbank with a good indication of the magnitude of potential authorizations in support of U.S. exports. At December 31, 1972, the Bank had 192 preliminary commitments outstanding for $2 billion in loans and $2.4 billion in guarantees representing potential U.S. exports of $5 billion.

Cooperative financing facilities

Eximbank's cooperative financing facilities have been made available in practically every significant country in the free world. Therefore, a U.S. company can offer its goods with confidence that any credit-worthy buyer can buy his products and arrange payment.

As of December 31, 1972, a total of $1.3 billion of facilities with 248 banks around the world was outstanding. During fiscal year 1972, $57.1 million in CFF loans were authorized; for the first half of fiscal year 1972 and fiscal year 1973, a total of $22.9 million and $35.8 million, respectively, were authorized, showing an increase of 56 percent.

Bad debt experience

The repayment experience under the loan program has been excellent. Since the inception of the Bank through fiscal year 1972, only $6.4 million in loans has been written off and, with subsequent recoveries on some of these writeoffs, a net of only $3.7 million has been charged to the Bank's retained earnings. This is only two one-hundredths of 1 percent of total loan disbursements over the same time span. Moreover, there have been very few loans written off in recent years. During the period July 1, 1958, to June 30, 1972, only eight loans totaling a net of $712,000 were written off as uncollectable. In fiscal years 1969 through 1972, no loans were written off.

GUARANTEE AND INSURANCE PROGRAMS

Through guarantees and insurance, Eximbank increases the participation of commercial banks and other financial institutions in financing U.S. exports, and enables U.S. exporters to consummate sales and penetrate markets which they might otherwise lose.

By guaranteeing commercial bank export loans and insuring U.S. exporters' overseas sales, Eximbank removes those risks which are generally inherent in and peculiar to, international transactions. This encourages greater levels of export sales and commercial bank export financing than would otherwise be possible.

During fiscal year 1972, authorizations for guarantees and insurance increased by 30 percent over fiscal year 1971. The first 6 months of fiscal year 1973 show a year-to-date increase of $274 million.

Further increases are certain, as the U.S. exporting community continues its excellent acceptance of such new developments as the master insurance policy, the combined medium-term and short-term insurance policy, the revised lease guarantee program, and recent revisions to the commercial bank medium-term guarantee program.

DISCOUNT PROGRAMS

Eximbank's discount programs are designed to assist U.S. exports moving on short and medium-term financing by providing liquidity backup to U.S. commercial banks for their export loans.

These programs assure commercial banks that if their liquidity situation tightens, their short- and medium-term export financing commitments can be met through loans from Eximbank against their eligible export financing paper. The interest rate differential between the Eximbank loan and the underlying export paper is deemed sufficient to cover the commercial bank's cost associated with their loan, but does not provide a profit incentive to use Eximbank's funds.

Discount loans are only made on an advance commitment basis. The U.S. exporter must certify that financing is needed to complete the export sale, and the commercial bank must certify that it is not prepared to make the export loan unless Eximbank will authorize an advance commitment to make a discount loan. This procedure assures that Eximbank assists only those exports where its support is essential to complete the sale; thus, the Bank is not supplanting private capital.

Eximbank's short-term program was inaugurated on January 1, 1972. The Export Expansion Finance Act of 1971, signed by President Nixon on August 17, 1971, gave the Bank the necessary flexibility and increased lending authority necessary to properly implement this facility.

The Bank's medium-term discount program is, and has been since 1969, meeting a critical need of the U.S. commercial banking community. After Public Law 92–126 was signed into law, Eximbank proceeded to again modify the medium-term discount program in several important respects to make it more useful to U.S. exporters and commercial bankers.

The length of time the Bank's commitment is in effect was extended to cover the entire life of the underlying export debt obligation. The interest rate on Eximbank's loan was made a uniform 1 percent less than the yield to the commercial bank if Exim's loan is made within 90 days of the commercial bank's disbursement against the eligible debt obligation. Commercial banks were permitted to repay an Eximbank loan at any time and then reoffer the same obligation for another loan.

The effect of these December 1971 changes was to make the medium-term program even more useful and responsive to the needs of the U.S. exporting community. This is evidenced by the fact that authorizations for advance commitments during the first 6 months of fiscal year 1972 averaged $57.6 million per month, but over the last 6 months of the fiscal year this average increased to $107.1 million per month. Total authorizations under the facility increased from $522.4 million in fiscal year 1971 to $988.6 million in fiscal year 1972—an 89-percent increase. The first 6 months of fiscal year 1973 have shown an 81-percent increase over the same period last year.

ADMINISTRATIVE EXPENSE

The Bank is requesting $8,655,000 for administrative expenses for fiscal year 1974. This slight increase over the $8,438,000 for fiscal year 1973 provides for an increase in average paid employment and small increases in costs of travel, communications, supplies, and materials, and other services.

EXPORT EXPANSION FACILITY

Public Law 90–390, enacted by Congress on July 7, 1968, established the policy of Congress "that the Export-Import Bank of the United States should facilitate through loans, guarantees, and insurance (including coinsurance and reinsurance) those export transactions which, in the judgment of the Board of Directors of the Bank, offer sufficient likelihood of repayment to justify Bank's support in order to actively foster the foreign trade and long-term commercial interest for the United States."

The law states: "The aggregate amount of loans plus 25 per centum of the contractual liability of guarantees and insurance outstanding at any one time under this Act shall not exceed $500 million."

Loans and guarantees are authorized under the EEF for U.S. exports to obligors and countries which would not qualify under the Bank's normal criteria of reasonable assurance of repayment, but which offer sufficient likelihood of repayment and meet the criteria established by the Bank's management for the facility. Loans and guarantees authorized under the EEF are not made on concessionary terms; they carry the same interest rate and repayment terms as are standard for the particular type of goods or services financed or guaranteed under

Eximbank's regular operations. At the end of fiscal year 1972, the total charges against the $500 million limitation were $373.6 million. At December 31, 1972, such charges totaled $496.6 million.

AUTHORIZATIONS FOR DEFENSE ARTICLES

In fiscal year 1972, $190 million in military credits were authorized in conjunction with the Department of Defense. This total consists of three credits: two to Iran for a total of $100 million, and one to Australia for $90 million. One of the credits to Iran is for $70 million; the other is for $30 million.

During the first half of fiscal year 1973, a direct credit and financial guarantee each for $100 million were authorized for exports of defense articles and services to Iran.

EXPORTS TO COMMUNIST COUNTRIES

The Export-Import Bank Act of 1945, as amended, contains a provision which prohibits Eximbank from guaranteeing, insuring, or extending credit, or participating in any extension of credit, in connection with the purchase or lease of any products by a Communist country, or the purchase or lease of a product to be principally used in or resold to or leased to a Communist country, unless the President determines such assistance to be in the national interest. In addition, the Export-Import Bank is prohibited from supporting any exports to any country the Government of which is engaged in armed conflict with the United States.

Accordingly, at this time, Yugoslavia, Romania, Poland, and the U.S.S.R. are the only Communist countries eligible to come under Eximbank's programs. Yugoslavia has been eligible since May 7, 1968, under a Presidential Determination of President Johnson. Romania has been eligible since November 22, 1971, when President Nixon determined that Eximbank assistance to Romania was also in the national interest. The U.S.S.R. has been eligible since October 18, 1972, and Poland since November 8, 1972, when President Nixon determined that Eximbank assistance to these countries was also in the national interest.

Export-Import Bank of the United States—Estimated activity, fiscal year 1974

	Thousands
Loan program:	
Equipment and services authorizations	$3,850,000
Commodity authorizations	100,000
Medium-term discount authorizations	1,900,000
Short-term discount authorizations	1,600,000
Special foreign trade authorizations	50,000
Subtotal—Gross loan authorizations	7,500,000
Less: Participations in and cancellations of loans authorized during fiscal year 1974	735,000
Net loan authorizations	6,765,000
Guarantee and insurance program:	
Authorization of new and renewed policies	6,200,000
Less: Repayment and cancellations on guarantees and insurance	3,936,880
Subtotal	2,263,120
Less: Reduction from use of fractional reserve and adjustments	1,704,840
Charge to new program activity for guarantees and insurance	558,280
Other charges:	
Interest and nonadministrative expenses [1]	326,620
Equipment [1]	100
Total other than for administrative expenses: i.e. "New Program Activity"	7,650,000
Administrative expense [1]	8,655
Total	7,658,655

[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]

	Fiscal year—		
	1972 actual	1973 estimate	1974 estimate
Loan program:			
Equipment and services authorizations	$2,210.9	$2,788.0	$3,850.0
Commodity authorizations	85.0	100.0	100.0
Medium-term discount authorizations	988.7	1,862.0	1,900.0
Short-term discount authorizations		1,600.0	1,600.0
Special foreign trade authorizations		50.0	50.0
Total	3,284.6	6,400.0	7,500.0
Less: Participations in and cancellations of loan authorizations	222.3	632.3	735.0
Net loan authorizations	3,062.3	5,767.7	6,765.0
Guarantee and insurance program:			
Eximbank guarantees and onshore insurance authorizations	1,745.4	2,031.0	3,200.0
FCIA short-term insurance authorizations	1,628.6	1,969.0	2,350.0
FCIA medium-term insurance authorizations	571.8	600.0	650.0
	3,945.8	4,600.0	6,200.0
Less: Interprogram transfers, net	3.3		
Repayments, cancellations and expirations:			
Subject to fractional reserve	2,024.7	2,652.0	3,936.9
Subtotal, 100 percent	1,917.8	1,948.0	2,263.1
Less: Reduction from use of fractional reserve and adjustments	1,458.9	1,482.3	1,704.8
Charge to new program activity for guarantees and insurance	458.9	465.7	558.3
Other charges:			
Interest and nonadministrative expense [1]	185.9	224.1	326.6
Equipment [1]	(2)	.1	.1
Total other than for administrative expense	3,707.1	6,457.6	7,650.0
Administrative expense [1]	7.8	8.4	8.7
Total	3,714.9	6,466.0	7,658.7

[1] On the accrual basis.
[2] Less than $50,000.

POSITION WITH RESPECT TO LENDING, GUARANTEE AND INSURANCE AUTHORITY

[In millions of dollars]

	June 30, 1972, actual	June 30, 1973, estimate	June 30, 1974, estimate
Statutory authority	$20,000.0	$20,000.0	$20,000.0
Proposed increase to authority			10,000.0
	20,000.0	20,000.0	30,000.0
Charges against authority:			
Outstanding loans receivable	5,956.2	7,696.3	9,314.4
Loans sold with recourse [1]	405.6	410.3	378.8
Undisbursed authorizations, loan agreements signed	2,982.3	4,248.1	5,456.4
Undisbursed authorizations, loan agreements unsigned	1,585.4	2,287.5	2,810.9
Subtotal	10,929.5	14,642.2	17,960.5
Guarantee and insurance programs: [2]			
Short-term: Commitment to Foreign Credit Insurance Association	473.3	567.8	580.3
Medium-term:			
Foreign Credit Insurance Association	191.1	222.3	253.6
Export-Import Bank of the United States	763.5	1,103.5	1,618.0
On-shore insurance	2.5	2.5	2.5
Subtotal	1,430.4	1,896.1	2,454.4
Total charges against authority	12,359.9	16,538.3	20,414.9
Unused authority	7,640.1	3,461.7	9,585.1

[1] In general, charged at 100 percent.
[2] In general, charged fractionally at 25 percent.

REQUESTED LIMITATION ON PROGRAM ACTIVITY

Not to exceed [$7,323,675,000] *$7,650,000,000* (of which not to exceed [$2,675,000,000] *$3,800,000,000* shall be for equipment and services loans) shall be authorized during the current fiscal year for other than administrative expenses.

(Note: The equipment and services loans limitation of $3,800,000,000 is net of cancellations and participations of fiscal year 1974 authorizations, in order to be consistent with the new program activity limitation of $7,650,000,000 which is also on a net basis.)

REQUESTED LIMITATION ON ADMINISTRATIVE EXPENSES, EXPORT-IMPORT BANK OF THE UNITED STATES, FOR FISCAL YEAR ENDING JUNE 30, 1974

Not to exceed [$8,438,000] *$8,655,000* (to be computed on an accrual basis) shall be available during the current fiscal year for administrative expenses, including hire of passenger motor vehicles, services as authorized by 5 U.S.C. 3109, and not to exceed $18,000 for entertainment allowances for members of the Board of Directors: *Provided*, That (1) fees or dues to international organizations or credit institutions engaged in financing foreign trade, (2) necessary expenses (including special services performed on a contract or fee basis, but not including other personal services) in connection with acquisition, operation, maintenance, improvement, or disposition of any real or personal property belonging to the Bank or in which it has an interest, including expenses of collections of pledged collateral, or in the investigation or appraisal of any property in respect to which an application for a loan has been made, and (3) expenses (other than internal expenses of the Bank) incurred in connection with the issuance and servicing of guarantees, insurance, and reinsurance shall be considered as nonadministrative expenses for the purposes hereof.

COMPARATIVE STATEMENT OF ADMINISTRATIVE EXPENSE BUDGETS (ON THE ACCRUAL BASIS)

[In thousands of dollars]

	1972 actual	1973 estimated	1974 estimated
Personnel compensation:			
Permanent positions	$5,469	$6,063	$6,192
Temporary employment	9	16	15
Pay above stated annual rate	46		
Overtime and holiday pay	70	74	76
Advisory committee pay	6	8	10
Reimbursal detail	126	74	80
Excess of annual leave earned over leave taken	61	100	107
Total	5,787	6,335	6,480
Personnel benefits contribution:			
Retirement	377	439	443
Health benefits	48	41	45
Employees life insurance	19	24	25
FICA taxes and incentive awards	7	8	9
Accident compensation		1	1
Total	451	513	523
Travel and transportation of persons	238	270	300
Transportation of things	10	10	10
Rent, communications and utilities:			
Rent, office space	416	416	416
Rent, storage space	7	7	7
Communications	145	150	152
Postage	93	60	68
All other	161	197	202
Total	822	830	845
Printing and reproduction	121	125	130
Other services:			
Contractual services and supplies	206	209	216
Official entertainment allowance	14	18	18
Total	220	227	234
Supplies and materials	125	128	133
Total expenses	7,774	[1] 8,438	[1] 8,655
Savings	416		
Budget limitation	8,190	8,438	8,655

[1] Does not include increase pay cost under Executive Order 11691 pursuant to Public Law 91-656

PERSONNEL OF EXPORT-IMPORT BANK OF THE UNITED STATES

Offices	1972 actual			1973 estimate		
	Technical	Other[1]	Total	Technical	Other[1]	Total
Office of the Directors	14	6	20	14	6	20
Office of Executive Vice President	3	2	5	2	2	4
Office of Public Affairs	3	3	6	3	3	6
Office of Government Affairs	1	2	3	1	2	3
Office of Executive Secretariat	1	5	6	2	5	7
Office of the Vice President for Cooperative Financing	6	5	11	6	6	12
Office of General Counsel	21	16	37	19	20	39
Office of the Senior Vice President for Export Expansion	2	3	5	5	7	12
Office of the Vice President for Export Expansion	4	3	7			
Office of the Vice President for Planning and Research	12	9	21	14	13	27
Office of the Senior Vice President for Exporter Credits, Guarantees and Insurance	2	2	4	3	2	5
Office of the Vice President for Exporter Credits, and Guarantees	6	10	16	7	10	17
Office of the Vice President for Exporter Credits and Insurance	10	17	27	10	19	29
Credit Information Section	2	1	3	1	2	3
Office of the Senior Vice President for Financing	10	12	22	11	13	24
Office of the Senior Vice President and Treasurer-Comptroller	19	51	70	17	54	71
Office of the Vice President for Contract Administration	10	9	19	11	10	21
Office of the Vice President for Product Financing	9	7	16	10	10	20
Office of the Vice President for Financial Analysis	7	8	15	8	8	16
Office of the Vice President for Project Development	9	8	17	11	10	21
Office of the Chief Engineer	7	4	11	7	5	12
Office of the Secretary	1	2	3	1	1	2
Office of the Vice President for Administration	7	49	56	7	47	54
Total	166	234	400	170	255	425

[1] GS-9 and below.

PERSONNEL OF EXPORT-IMPORT BANK OF THE UNITED STATES

Offices	1974 estimate		
	Technical	Other[1]	Total
Office of the Directors	14	6	20
Office of Executive Vice President	2	2	4
Office of Public Affairs	3	3	6
Office of Government Affairs	1	2	3
Office of Executive Secretariat	2	5	7
Office of the Vice President for Cooperative Financing	6	6	12
Office of General Counsel	19	20	39
Office of the Senior Vice President for Export Expansion	5	7	12
Office of the Vice President for Planning and Research	14	13	27
Office of the Senior Vice President for Exporter Credits, Guarantees and Insurance	3	2	5
Office of the Vice President for Exporter Credits and Guarantees	7	10	17
Office of the Vice President for Exporter Credits and Insurance	10	19	29
Credit Information Section	1	2	3
Office of the Senior Vice President for Financing	11	13	24
Office of the Senior Vice President and Treasurer-Controller	17	54	71
Office of the Vice President for Contract Administration	11	10	21
Office of the Vice President for Product Financing	10	10	20
Office of the Vice President for Financial Analysis	8	8	16
Office of the Vice President for Project Development	11	10	21
Office of the Chief Engineer	7	5	12
Office of the Secretary	1	1	2
Office of the Vice President for Administration	7	47	54
Total	170	255	425

[1] GS-9 and below.

EXPORT-IMPORT BANK OF THE UNITED STATES—PERSONNEL SUMMARY

	1972 actual	1973 estimate	1974 estimate
Total number of permanent positions	398	423	423
Full time equivalent of other positions	2	2	2
Total	400	425	425
Average number of all employees	379	393	398
Average GS grade	9.2	9.0	9.0
Average GS salary	$14,903	$14,584	$14,784
Average salary of ungraded positions	$7,486	$7,609	$7,609

WORLD TRADE SITUATION

Mr. KEARNS. Mr. Chairman and gentlemen, I would like to make a few comments. The situation with respect to world trade is in a state of change. Changes are always taking place in the world of trade, but I think they have been faster and there is more variety this last year than ever before. Certain new elements have entered into the situation that I think are worth noting.

One thing, I am sure we are all aware of, is that the agricultural needs of the world have exceeded the supply in nearly all markets. This presents an entirely different picture than we had a year ago.

We have finally awakened to the needs of energy and minerals that this country will of necessity import over the coming years, as will other countries.

The pace of development of various countries is accelerating. As countries learn of the better life they can have and as they develop their minerals and other resources, they are able to buy things that they couldn't before.

There are some very dramatic changes taking place in the competitiveness of U.S. products since a year ago due to the revaluation of the currencies, and competition generally is pretty brisk.

EXIMBANK RESPONSE TO CHANGING CONDITIONS

These are some of the factors that tend to make for change. One of the principal things that we at the Export-Import Bank of the United States feel we must do is to be prepared for these changes; that taking an action today for today's market usually isn't good enough because in most cases marketing efforts or sales are for a long time in advance.

In other words, if you have a product which you intend to sell in the world market, you have to start in today to make yourself known in the market long before the sale takes place. It may be 1, 2, 3, 4, 5 years, but it is always a long time in advance. So all the things we are doing are intended to extend the usefulness of this institution in order to increase the marketing effort of the United States and to try to obtain the exports that are needed.

We have tried in all of our activities to respond to what we consider a demonstrated need. In other words, in this market you have short-term transactions, long-term transactions, big ones, small ones, all nature of them, and we try to use the authority that is granted to us by the Congress to meet these needs.

IMPROVED PROGRAMS

Within the last year we have quite significantly improved the operation of our bank guarantee program to make it more attractive and more interesting for banks to serve their customers who are the exporters.

Through the FCIA, an association of insurance institutions, we have improved the operation of the insurance program so that it is more responsive to the needs.

The discount program, which backs up the banks in their export financing activities, has been improved. We have this new rather spectacular program, really spectacular from the standpoint of success, which is designed to make credit available for small transactions, particularly small business in this country that wants to sell or small business abroad that wants to buy, and this has moved along fairly well.

In my prepared statement you will note some of the highlights.

FISCAL YEAR 1974 PROGRAM ACTIVITIES LIMITATION REQUEST

For the next fiscal year we are asking for a total program activity limitation of $7,658 million. This compares with $6,466 million in 1973, or an increase of $1.2 billion—approximately 18 percent.

Now, that 18 percent would be somewhat equivalent to the current increase of U.S. exports over last year. It was considerably more than that in February and in March, but it looks like we might sustain an 18 percent increase for the year, and so it would mean that the Export-Import Bank would just be keeping up with the trend.

ADMINISTRATIVE EXPENSES REQUEST

For administrative expense, we have a request of $8.7 million compared with $8.4 million last year, or an increase of $300,000, or only about 3 percent. From a business standpoint, it would appear that maybe we are getting a little more for the country's money than we would otherwise.

Our personnel level remains at 400, which is an exceedingly low level, I think, for the amount of business we are doing. And you might note that the grade level has been reduced from 9.2 in fiscal year 1972 to 9 in fiscal year 1974. In other words, we have been trying to hold the line on personnel and expenditures while still doing the job.

SCOPE OF AREA IN WHICH BANK IS DOING BUSINESS

One of the things I think is quite important that we might keep in mind is that we do business now in 124 countries, or 175 markets as of the last fiscal year. You have Hong Kong, Bermuda, and so forth, which are really markets in themselves, but as part of another country.

The impact in some of these countries is rather small, as little as a few thousand dollars, but we do have some exposure today in that many countries.

ENCOURAGEMENT TO PRIVATE BANKS TO FINANCE EXPORTS

One of the measures, I think, of our operation is to look at what we have been trying to do to encourage private banks to be more ac-

tive in offering their services to a business that will try to sell its goods abroad. One of the ways we have done that is through our discount program which provides assurance of liquidity to a bank that will provide financing to its customers. We do that by making available a loan against the export paper at roughly 1 percent below what the bank charges the customer.

I checked just before I came here and we now have 161 banks that are working with us on the discount program, up from 27 banks in 1969. When you realize that those banks are scattered all over the country, that we now have in almost every area of the country one or more banks that will tell a buyer or a seller, "We are prepared to provide you with financing if you have a transaction," it is very encouraging.

We think this is all to the good, and it works out especially well from a leverage standpoint. We have been able to get this activity by making an advance committee to the bank to provide such financing if they need it, but the draw has been exceedingly low, a very small percentage of the commitment. In other words, the transaction goes forward, the bank makes a loan, but they don't draw on us unless it is necessary and so far they haven't done that.

FUNDING OF BANK

Our funding, which we use for operations, also, I think, presents a rather interesting picture.

The net cash needs projected for 1974 for the Bank's operations—that is, in addition to receipts from loans, interest and fees—are estimated to be $1,865 million, which includes paying off $327 million of PC's—participation certificates. It also includes paying a dividend to the Treasury of $50 million.

We intend to get that money by borrowing from the public $1,706 million and from the Treasury $159 million.

You may note that we have reduced our Treasury borrowings down from what they used to be.

DELINQUENCIES AT MARCH 31, 1973

There is another area in which I know you are interested and that is delinquencies. As of March 31, total delinquencies of 30 days or more were about $196,327,000, of which Chile accounted for about $90,684,000; Cuba, $57,956,000; and Mainland China, $42,058,000.

This is both private and public. And $59 million of that has been private, largely in Chile.

LOSSES SINCE INCEPTION OF BANK

We have charged off only $20 million since inception of the Bank, of which $16,585,000 was insurance and guarantee settlements, on which incidentally we had collected premiums.

We have a very excellent collection and administration program, and I think when you relate these very minimal losses, even including $91 million in Chile, to the total amount of business, it would be considered fairly good.

Those are just some of the highlights pointing up the way we see it today. I hope you will see that this little institution, which is not big in terms of Government jobs, is making some significant contributions.

We feel we are getting a maximum of leverage from the amount of costs to the money system. We don't actually cost the taxpayer anything, fortunately; we are able to raise our funds through the money system.

RELATIONSHIP OF BANK LOANS TO EXPORTS

I want to point out one little chart here. I don't have it in final form, but I can make it available to you. This shows the difference in the relationship between Export-Import Bank's loans to the amount of exports that relate directly to those loans. This is outside of the insurance and bank guarantee programs, the discount program, and so forth.

In 1966 the Export-Import Bank made direct loans of $1,149 million against exports of $1,226 million. That compares with fiscal 1972 of loans of $2,296 million against exports of $4,714 million.

We are getting $2 of exports for every dollar of loans that we make. This is due to the changes in the program that we have been following in the last 4 years and to improving our operations. So we get a tremendous amount of leverage and anyone interested in financing knows that leverage is the name of the game. That is the thing you are always trying to do—achieve leverage for your money, so you get more effect for the impact you make.

COMMITTEE PROCEDURE FOR QUESTIONING WITNESSES

Mr. PASSMAN. Thank you, Mr. Kearns.

Under the rules of the committee each member of the subcommittee may consume 5 minutes in questions and answers and I usually defer asking any questions until the other members have had an opportunity to consume 5 minutes.

Now, in fairness, we want the questions to be complete; we want them to be as brief as possible because a good witness can always take a 15-second question and spend 7 minutes answering it. So if you will remember each member operating under the rules will consume 5 minutes, after which we will return to the chairman and I will consume as much time as I need to conduct my examination and subsequently each member of the committee may consume all the time required to be able to ask the questions that they have in mind.

At this time I yield 5 minutes to Mr. Roybal of California.

ADMINISTRATIVE EXPENSES REQUEST

Mr. ROYBAL. Thank you, Mr. Chairman.

It is my understanding the Bank is requesting $8,655,000 for administrative expenses. Can you tell us what that means?

Mr. KEARNS. I will ask Mr. Dugan to speak to that.

Mr. DUGAN. Included in the $8,655,000 is about $6.5 million for personnel compensation, another $523,000 for personnel benefits, $300,000

for travel, $845,000 for rent, communications and utilities, and $507,000 for other administrative expenses.

Mr. ROYBAL. What is the amount directly charged to salaries?

Mr. DUGAN. $6.48 million.

TRAVEL EXPENSES

Mr. ROYBAL. Is there a breakdown or can you provide a breakdown of your travel expenses? $300,000 for travel, is that the norm?

Mr. DUGAN. We incurred actual expenses in 1972 of about $238,000, and we estimate 1973 to be about $270,000. It is a moderate increase.

Mr. ROYBAL. You are asking for an increase, are you not, in travel?

Mr. DUGAN. About a 10-percent increase.

Mr. KEARNS. Could I supplement that? In international business where it is incumbent upon us to maintain surveillance over 124 countries, their economic and political potentials and problems, and also to try to understand the potentials for U.S. exports and to be able to respond to this demonstrated need, there is really no substitute for having someone in the Bank personally visit these countries.

Over the past 4 years we have encouraged more and more of our staff to travel. We find that it makes them better loan officers, they make better judgments, they have more interest in what they are doing, and we are better able to respond to the needs when they come up, that is, the applications when they come up. Actually I probably have accounted for more of that travel than anybody else. I know I have because I think there is no way that I could answer the problems that occur to me as head of the institution unless I have a fairly good personal picture of what is happening around the world. So our travel expense is higher than it has been. There were many years when the bank's personnel traveled a minimum.

Mr. ROYBAL. You would agree with my contention that this committee should also travel to find out how you people spend the money?

Mr. KEARNS. I think that if you are interested in international business, you cannot understand the dimensions unless you travel.

NEED FOR CONGRESSIONAL TRAVEL

Mr. ROYBAL. One of the complaints I usually get is that the Committee on Appropriations does very little traveling.

I think they should have a very good idea of how money is spent not only by our group but by every other agency that comes under this committee.

I am glad to have your statement on record. I think you made a better case for traveling than I have ever been able to make, and I am glad to have your help on it.

Mr. KEARNS. I feel very strongly about it. The more I see of it, the more I am convinced.

Mr. ROYBAL. Thank you, Mr. Chairman.

Later I would like to go into the matter of employment practices and so forth. It will take more than 5 minutes for me to proceed in that area.

Mr. PASSMAN. Thank you, Mr. Roybal.

If I may comment briefly, in all probability while we are sitting here there are a thousand bureaucrats in the air somewhere traveling over the many nations of the world, and you never see one sentence of criticism by the press or any of the national commentators, or these people who always find wrong with Congress about this travel. But you let a member of this subcommittee go out on an examination, no matter how serious it is, it is immediately labeled "junket" and it makes some of the members somewhat hesitant to go on these trips.

I just went to Saigon and a good part of the cost of that trip came out of my own pocket because I did not want to be subjected to criticism by some writers.

It is really good that you make the case. I see where you have been out probably for 6 weeks traveling constantly.

You have had no criticism in the press, but I am being chastised already for my trip to Southeast Asia, which I thought was very, very important. I am being just a little critical and rightly so, because they tear us apart and call it a junket.

We shall recess briefly.

[Recess.]

Mr. PASSMAN. The committee will come to order.

Mr. Roush, you may proceed.

NEW MEMBER OF COMMITTEE

Mr. ROUSH. Thank you, Mr. Chairman.

I want the witness to understand this is my first occasion to participate in the deliberations of this subcommittee. I am not going to pursue my questioning too extensively this year and I am going to sit and listen for the most part. However, next year I would anticipate participating very actively, Mr. Chairman.

Mr. PASSMAN. We are very happy to have this distinguished member as a member of this committee and I know he will be a very valuable member of this committee.

Mr. ROUSH. Thank you, Mr. Chairman.

Referring to your statement beginning at the bottom of page 2, you provide the various bases for your statement and, among other things. you are referring to the fact that you anticipated a great year here and you refer to more private and public buyers as having ability to purchase as a result of greater liquidity, availability, and vastly expanded credit facilities.

I wonder if you could elaborate just a little on that for my own edification?

Do you find my references? It is at the top of page 3.

REASONS FOR INCREASED WORLD TRADE

Mr. KEARNS. Yes, sir.

As the world is developing, with discoveries of minerals and the need for minerals in many countries, certain countries now are finding themselves with potential income that they didn't know they had 1 year or 5 years or 10 years before. So now they are able, by the use of credit, to speed up their economic development by buying equipment, materials,

and developing infrastructure, whatever it may be, with industries developing in those countries, which speeds up business.

SOURCES OF CREDIT FOR TRADE

Mr. ROUSH. What is the source of that credit?

Mr. KEARNS. The exporting countries in nearly 100 percent of the cases.

You have on one side improved credit worthiness in developing countries, and then you have in the developing countries increasing needs for products and a great diversification of their production, which means that they are looking elsewhere to buy something.

They look, too, to export financing institutions to finance those transactions. It isn't very often that you find a transaction in a developing or a developed country where the buyer has the money in the bank before he makes the transaction. He may have part of it—10, 15, 20 percent—but he uses it. If it is any kind of transaction of any consequence, he must buy on time. It might be a short-term transaction where you pay off in 180 days or a year, or it may take as much as 20 years, but he looks to somebody to provide him with credit.

At the same time, the export credit institutions of all of the industrial countries have improved their techniques. Export-Import Bank is the oldest of those. I think we are still a little bit in the lead, but we have a lot of competition because others are observing what we are doing and improving their techniques.

Also, the international banks are able to provide more financing and usually in cooperation with the government export financing institution, if there is an export involved.

So these are all breaks in the total fabric of the larger house of trade that you are building. It is those and many other things. If we sat down and worked at it, we could probably find a dozen specific things that have led to this constantly increasing trade.

CHANGES IN THE LESS DEVELOPED COUNTRIES

Mr. ROUSH. Would the fact that some of the underdeveloped countries have developed a degree of sophistication in the business world also contribute to this?

Mr. KEARNS. Yes.

Mr. ROUSH. And increase confidence on the part of lenders?

Mr. KEARNS. Yes; there is that and also increased communications. There is a lot better knowledge, one to the other, than there has ever been before.

FOREIGN BUYERS RESPECT FOR U.S. PRODUCTS

Mr. ROUSH. Let's go to your point 4 here, where you say thorough inquiry reveals a very high respect for U.S. products. Who made the thorough inquiry?

Mr. KEARNS. I did.

Mr. ROUSH. Is this a formal inquiry you made or is this just a conclusion you have reached?

Mr. KEARNS. It is a conclusion I have reached after very extensive travel and consultation with people in 50 countries all the way from heads of state down through to the bankers, and the business people—extensive questioning in such things as "What do you intend to buy next year? What are your plans for development?" And from that my colleagues and I have accumulated a lot of firsthand information.

In addition, we have a constant flow of inquiries to us by either suppliers or by buyers on transactions. We have them in all elements of our operation which gives us a constant picture of what is happening in the world, and I can say without any fear of any successful challenge that this is the case. I can't prove it statistically except that our exports are increasing at a very substantial rate.

QUESTION OF QUALITY OF AMERICAN PRODUCTS

Mr. ROUSH. I don't know that I would want you to statistically prove it, but I should think I would like to see more hard evidence than just your own personal conclusion.

I, of course, read where the comparative quality of American goods has somewhat deteriorated over the past few years. I am speaking of the comparative quality and this is bothersome to me and I am wondering what the future holds for us, if this is the case, and if that trend should continue.

Mr. KEARNS. I think the term "comparative quality" can mean many things. You can say compared with tradition in this country. You can say compared with products from other countries, where I would question it.

If it is compared with the sophistication of a product compared with what it was 5, 10 or 20 years ago, I would say that it could mean anything.

In other words, comparative can be many things, but the fact is that U.S. products are really desired and admired by most people in the world today. I say that after very intensive discussion.

UNIFORM INDUSTRIAL STANDARDS

Mr. ROUSH. One other thing indirectly related. What are we doing to bring ourselves into a position of being more competitive because of the adoption of uniform industrial standards? I am sure that must affect your work.

Mr. KEARNS. This is a factor, and I don't think we are doing or have done enough. I think we should have started 20 years ago to move to the metric system.

Mr. ROUSH. My first reference was to industrial standards. I was going to speak to the metric system but in the area of industrial standards, so many screws per inch, so many lines per inch on the TV screen, this has deprived us of a lot of markets simply because we haven't been able to compete with countries in attaining uniform standards.

Mr. PASSMAN. The gentleman has consumed his 5 minutes but we will return to the gentleman later, if that is OK?

Mr. Conte.

NEED FOR U.S. BUSINESS TO GO INTO FOREIGN MARKETS

Mr. CONTE. I have no questions. I have read the statement. It is an excellent statement. I imagine a lot of other agencies in the government look at you with envy.

I just came back from the Asian Development Bank and met with the president of the bank there. He was quite concerned that American manufacturers were not competing enough in the foreign markets; especially now with the devaluation of the dollar. It has made us very, very competitive, and I agree with you a lot of the consumers throughout the world look with an eye toward American products because they like them, especially in the appliance fields, where we really haven't done enough to try to go out and sell.

What are we trying to do to stimulate trade in these areas?

Mr. KEARNS. I can't tell you what everyone is trying to do, but I can tell you what we are trying to do. We believe that using the resources of the Export-Import Bank which can be transmitted to potential suppliers as a means of assuring them that if they sell something they will be paid—they can get their money—is a strong tool.

So we have set about to make it work. We have done that primarily by working with private banks all over the country, to encourage bankers to know how to use Export-Import Bank facilities in cooperation with their own, so they can provide financing when it is necessary. So then if an exporter goes in, or a producer goes in, and says, "I have a prospect. Should I look at it?", the banker will say, "Yes, do it. There is a way to finance it."

When there were very few banks throughout the country telling them that, the average American company would find very few banks who would encourage him in the export field. Today we have banks all over the country participating with us—161 in the discount program, about an equal number in the guarantee and insurance program—so in any market there are banks that will work with an exporter to help him sell his products.

Now, this is incentive to encourage additional marketing efforts.

Again, in my market analysis, which I think is sincere and conscientious, and I think somewhat effective, the No. 1 thing we find is a minimal U.S. marketing effort. So the more we can encourage U.S. companies to go out and sell their products, the more we can take steps to solve our trade problem and I think we are doing it.

PERSIAN GULF AREA ACTIVITY

Mr. CONTE. Do we have any specific program in the Persian Gulf area where we have such a bad balance of payments problem, because of the large purchase of energy in that particular area? Is there any concentrated program to try to offset that?

Mr. KEARNS. Yes, we have two or three. Now, the Persian Gulf, you know, is made up of several countries. If I can speak of Iran, then I can say absolutely we have some programs that are effective. If I have to speak of Kuwait or Saudi Arabia, Iraq and so forth, then we are not doing very much. But in Iran there is every probability that the United States will supply Iran with 50 percent or more of its imports, which could total around $5 billion a year from the United States by 1975.

We are doing that by working with the Iranian buyers government

and private, by setting up our cooperative finance program in the Iranian bank, so the buyer in that country, regardless of his size, can find financing if he needs it.

So we are working specifically in that country.

Now, it is more difficult in the other Persian Gulf countries because, in the first place, they don't have a comprehensive development program of their own. They really are sort of moving along on a hit or miss basis. It is difficult to do.

EXPORTS TO IRAN

Mr. CONTE. What are we selling to Iran?

Mr. KEARNS. All kinds of equipment—transportation equipment, manufacturing, power, agricultural equipment, food processing, liquefied natural gas projects, everything you can think of. It is an economy that is moving ahead on a very broad basis. It offers a tremendous market.

Mr. CONTE. I guess my 5 minutes are up.

COOPERATIVE FINANCING FACILITY

Mr. COUGHLIN. At page 7 of your statement you talk about the cooperative financing facility program as being one of your exciting developments. How does that work?

Mr. KEARNS. This is a program we devised or actually started in operation 2 years ago after a year's experiment. We found that around the world there are financial institutions with which we could cooperate in financing purchases from the United States. So what we do, once we have determined that the bank or other financial institution is creditworthy in itself, is to make a line of credit available to cover 50 percent of the financed portion of a transaction.

In other words, if they are buying a million-dollar piece of equipment, material or whatever it may be, we expect a 10-percent downpayment, which would leave $900,000.

We will provide $450,000 of Export-Import Bank money at 6 percent interest on a 5-year loan. The cooperating bank in the market provides the other 50 percent. They combine the two and loan the money to the buyer at a rate that is usually lower than the market rate would be in that country.

Mr. COUGHLIN. The difference between this and the other programs is the insertion of a cooperative bank in another country.

Mr. KEARNS. That is right. They make the judgment as to whether or not the transaction is creditworthy and take the credit risk.

That is the real key to the thing. In smaller transactions, the big expense and delay is trying to determine whether or not you are going to be repaid. When we put that in the hands of a local bank, then we have really made the thing work.

This program is approaching $250 million of sales, averaging about $200,000 apiece. We are just getting the program started. It opens an entirely new dimension to U.S. exporters because it gives them a chance to go into any market. We now have branches of banks in every significant market in the free world. Any exporter who has a product to sell can go into those banks and can make arrangements to finance his sale if he has a good product. All he has to do is make an effort to market to creditworthy buyers.

Mr. COUGHLIN. At page 11 of your statement in the third paragraph at the top of the page you talk about U.S. producers participating in the many large pilot projects now in a formulative stage. Could you illustrate?

LIQUEFIED NATURAL GAS

Mr. KEARNS. LNG is the biggest one. We started 2 years ago by hiring a man to spend full time getting all the facts on the future of liquefied natural gas as an energy source. We have been able to accumulate probably as much information as any organization in the world. These transactions require such tremendous capital that any potential participant, either the country that has the gas or the company who puts it together, or the buyer, knows that financing is a key issue. So they come to us and ask us what we can do.

The result is we have been able to accumulate information from all of them, and we have a good picture of what is happening.

Those are very, very large transactions. We have some 22 or 23 transactions in liquefied natural gas in some part of the world in some state of development.

Now, that is the biggest one.

Mr. CONTE. Do you have a study on that?

Mr. KEARNS. We don't have a complete written report on it because we have to move so fast.

Mr. CONTE. I would like to see it if you have it.

Mr. KEARNS. The thing moves so fast that it is hard for us to put together a complete study because what is true today will be obsolete tomorrow. I will be glad to have our expert come up and go over it with you because he can give you a picture of it that is really exciting.

Mr. PASSMAN. Why don't you commit it to writing where all members of the committee will have an opportunity to see the information?

Mr. KEARNS. Very well. It really needs to be done.

Mr. PASSMAN. If it is going to be done, don't you think we should have it in the hearings so all members would be able to see it?

Mr. CONTE. We would be happy to see it.

Mr. COUGHLIN. Would it be possible to get a list of the primary products under consideration?

Mr. KEARNS. That is a little difficult. What we do here is looked upon with interest by our competitors in foreign countries.

We will give you a report of the principles, and then if you want the details, we will give them to you, but I don't think we should have it in a report that will go to the Germans, the French, the Japanese, and others, to give them the benefit of all the information we have.

Mr. PASSMAN. Give us a memorandum on it and we will put it in the file, so all members may look at it.

Mr. KEARNS. We will be happy to do that. We had one difficulty with a report on competitiveness. We did a first-class job, and the first thing we knew all our competitors had a copy of it, and it gave us fits because they used it against us.

Mr. PASSMAN. Give us what you can.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

PLANNED LIQUEFIED NATURAL GAS (LNG) EXPORT-IMPORT SYSTEMS, WHERE THEY STAND TODAY

(A Brief Review—May 1973)

Introduction

Actual and reliably forecasted demand for and shortages of natural gas in the United States, Japan, and Western Europe have prompted an intense interest in the possibilities of importing baseload quantities of liquefied natural gas (LNG) into these gas-deficient areas.

In order to bring into focus the numerous potential LNG import projects now being planned or actively discussed, the following brief review is offered as an indication as to where they stand today. Purposely omitted are those projects in Alaska, Algeria, Brunei, and Libya which are in fact operating today. The purpose here is to review those projects which are being planned or actively discussed and which appear to have merit. For this reason, the review does not encompass the full spectrum of such discussions, nor is its purpose to forecast the eventual realization of the projects reviewed herein.

In addition, during the past year or so, methanol has received increasing attention as a possible alternative to LNG. It should be recognized that potential sources of methanol are the same as LNG, and should methanol prove competitive, it could displace some projects presently forecast for LNG.

In any event, here's where they stand today.

Abu Dhabi

Das Island Project.—An international joint venture group recently announced the signing of a 20-year contract to transport approximately 400 million cubic feet per day equivalent of LNG to Japan. The total foreign costs for the Das Island plant facilities are estimated to be approximately $200 million. Eximbank has issued a preliminary commitment indicating its willingness to support the proposed U.S. costs of $50 million. A Norwegian shipyard has been awarded the contract to construct four ships, three 125,000 cubic meter and one 87,000 cubic meter. The first deliveries of LNG are scheduled for the final quarter of 1976.

Algeria

Arzew Projects.—The Sonatrach/El Paso project, which proposes to deliver 1 billion cubic feet of natural gas per day to the east coast of the United States, is now moving ahead. Eximbank's financial commitment in the Algerian liquefaction plant and related field facilities could reach $367 million. Sonatrach will construct and operate all of the facilities required in Algeria, from the gas wells at Hassi R'Mel to the plantsite at Arzew. El Paso will own and operate nine 125,000 cubic meter ships which will carry the LNG, under a 25-year contract, to two receiving terminals, one at Cove Point, Md., where deliveries of LNG equivalent to 650 million cubic feet of gas per day will be made; and the other terminal at Elba Island, near Savannah, Ga., will receive the remaining 350 million cubic feet per day. First deliveries of LNG are scheduled to commence in 1976. El Paso has agreed to build six ships in the United States and three in France. The U.S.-constructed vessels will be supported under MARAD programs.

In addition to the above project which, when implemented, will be the world's largest LNG system, El Paso has a second agreement with Sonatrach covering the purchase of additional LNG equivalent to 1 billion cubic feet of gas per day over a similar 25-year period. This proposal envisions a second liquefaction plant and related facilities at Arzew. Tentative agreements have been reached for sale of the LNG to U.S. buyers on the east coast. Initial deliveries are planned to commence in 1978.

Skikda Project.—In addition to the three-train Skikda plant which commenced operation this year and which will ultimately deliver 450 million cubic feet of gas per day to French buyers, Sonatrach intends to greatly enlarge the capacity of the plant to process approximately 1 billion cubic feet per day. Preliminary agreements have been reached for sale of the additional LNG to U.S. buyers on the east coast. MARAD has agreed to support the construction and financing of three 125,000 cubic meter ships for the potential LNG deliveries.

Dellys Project.—A consortium of French, Dutch, Belgian, West German, and other European gas distributors have signed a 20-year agreement with Sonatrach for approximately 1 billion cubic feet of gas per day. The contract calls for the Europeans to arrange the financing for Sonatrach to cover investment costs for producing and liquefying the gas.

Australia

Magellan Project.—In July 1972, a group headed by Magellan Petroleum Corp. announced plans to sell approximately 500 million cubic feet per day equivalent of LNG for 25 years to a U.S. west coast utility company. Estimated costs of the capital facilities to carry out the project are approximately $1.2 billion. This amount would include about $500 million for a pipeline to the coast from the Palm Valley field in Australia's central desert, and a plant to liquefy the gas. The balance of the investment cost would be used for LNG ships and for regasification facilities in California. Among other things, the project is subject to approval of the Australian government which has indicated some reluctance to do so at this time.

Woodside-Burmah project.—In December 1972 a group headed by Woodside-Burmah Oil N.L. announced that it had proved and probable reserves in excess of 10 trillion cubic feet of natural gas in its North Rankin field on the northwest shelf of Australia. The group has also discovered three other gas fields in the same area and estimates that the recoverable reserves from the four fields could total 20 trillion cubic feet of gas. The group plans to produce 1 billion cubic feet per day from the offshore wells, and to pipe the gas ashore near Dampier where it will be liquefied and stored for shipping to Japan and the U.S. west coast. As with the Magellan proposal, this project is subject to approval by the Australian Government.

Indonesia

Pertamina project.—Pertamina, Indonesia's state-owned oil company, contemplates construction of a liquefaction plant and ancillary facilities to deliver 1 billion cubic feet per day equivalent of LNG for shipment from the Arun field in North Sumatra to the U.S. west coast. An international oil company would provide technical and management assistance for the Indonesian land-based facilities, and the proposed buyer would be a west coast utility company. Initial cost estimates for the liquefaction plant are approximately $500 million, with potential U.S. costs of up to $370 million. Eximbank has preliminarily agreed to support the U.S. costs for the plant.

In addition to the above Pertamina hopes to develop similar large gas export projects in Kalimantan, Borneo, and in West Irian, New Guinea.

Iran

Kharg Island project.—The National Iranian Gas Co. (NIGC) is planning the formation of an international joint venture group to develop a gas gathering system and plant on Kharg Island to liquefy approximately 500 million cubic feet per day of gas, for delivery to Japan via five 160,000 cubic meter ships. Total capital costs for the overall project are estimated to be approximately $1.3 billion including $700 million for ships. Eximbank has preliminarily agreed to support up to $750 million U.S. costs in the plant and ships.

Qeshm Island project.—Because of higher LNG processing costs due to the quality of the gas at Qeshm, NIGC is now considering a joint venture project for the development of a large methyl fuel facility. The relative economics of methanol production have so improved that the methyl fuel route today offers a viable and attractive alternative to LNG schemes. Recent evaluations by major United States and Japanese firms have prompted predictions of bulk methanol importation into both the United States and Japan during the next decade. The methanol would be used both directly as a primary fuel and as feedstock to SNG plants for production of pipeline gas. Also, bulk methanol can be shipped in conventional type crude oil tankers which are far less capital intensive than LNG tankers.

Initial cost estimates for the Qeshm Island facilities only, including the plant, gathering system and gas field development, are approximately $500 million.

Kangan project.—Some months ago, NIGC announced plans to develop a project at Kangan to liquefy up to 1.2 billion cubic feet per day of gas for markets in Japan, the United States and South America. This undertaking calls for a $700 million international joint venture investment in the Iranian land based facilities, plus an undetermined amount for 13 to 19 tankers.

Malaysia

Sarawak project.—An international oil company together with Japanese interests and the Government of Sarawak plan to develop a joint venture project to export LNG to Japan. The quantity of gas involved is estimated to be approximately 800 million cubic feet per day and require seven ships. Indications are that negotiations with the government and the Japanese interests are progressing slowly; however, the participants believe that the project will go forward in the not too distant future. Total project costs are estimated to be approximately $1.5 billion.

Nigeria

There are three potential LNG projects in Nigeria, each of which would process 500 to 700 million cubic feet per day of associated and nonassociated gas. The three separately planned projects are in conjunction with the oil production of various international oil companies. The U.S. east coast is the primary market being sought, and each project will require an investment of approximately $1 billion or more, including the ships and the land-based facilities on each end of the systems. There has been much delay in moving any of the projects forward; however, the major oil interests are presently in earnest negotiations with the government in an effort to develop their own areas of production.

Saudi Arabia

Petromin project.—Saudi Arabia's General Petroleum & Mineral Organization (Petromin) proposes to develop a joint venture methyl fuel project. The plan calls for the conversion of associated natural gas in Saudi Arabia to fuel-grade methanol for export to end users in the United States. The plant would be designed to produce 10,000 tons of methanol per day for sale to U.S. buyers under long-term purchase contracts. The offtake would be shipped in conventional VLCC's, unloaded at a deepwater port outside the United States, and then transshipped in smaller crude carriers to ports on the east coast United States. The methanol would then be converted into fuel gas of pipeline quality.

Trinidad and Tobago

Trinidad project.—Eximbank has preliminarily agreed to support up to $189.5 million for the gas pipeline and liquefaction facilities in Trinidad. The project calls for a joint venture between the Government of Trinidad and U.S. interests to liquefy approximately 300 million cubic feet per day of natural gas from offshore Trindad reserves for shipment via two 125,000 cubic meter vessels to the gulf coast of the United States. The LNG will be received there and regasified and injected into an existing pipeline system. First deliveries, subject to necessary approvals, are scheduled for 1977. MARAD has preliminarily agreed to support the construction and financing of the two ships.

U.S.S.R.

Potential project sponsors from the United States have held preliminary talks with Soviet officials in Moscow about importing into the United States, and possibly Japan, LNG from the U.S.S.R. Two projects are envisioned * * * one would liquefy some 2 billion cubic feet per day of gas from western Siberia for export to the east coast United States, and the other would liquefy a similar volume of gas per day for export to the west coast United States, and possibly a given quantity of this to Japan. The total capital requirements for these two projects, including the U.S.S.R. facilities, ships, and U.S.-receiving facilities are estimated to be approximately $10 billion.

Venezuela

Lake Maracaibo project.—Corporacion Venezolano del Petroleo (CVP) and the Venezuelan Government are currently planning for the export of approximately 600 million cubic feet per day of gas as LNG from Venezuela to the United States. The project calls for gathering associated gas and construction of liquefaction facilities in the Lake Maracaibo region, and three tankers to transport the LNG.

Other Projects

On the U.S. west coast, gas companies are pursuing the possibilities of LNG imports from Ecuador and the Canadian Arctic, as well as intercoastal movement of LNG from Alaska to California. A west coast utility company is actively pursuing a project to move LNG from Alaska to its planned receiving facilities in California.

Conclusion

The volumes of LNG discussed herein total approximately 20 billion cubic feet of natural gas per day equivalent. On the assumption that the total capital requirements of a complete LNG export-import system (under existing technology) will approach an average of approximately $2 per cubic foot of daily capacity installed, the total capital requirements could well reach $40 billion. These costs would of course include the foreign land-based production and liquefaction facilities, the shipping, and the receiving and regasification facilities in the consuming countries. It is interesting to note here that the potential number of vessels required to carry these volumes of LNG could well reach 200.

As indicated in the introduction, this review does not encompass the full spectrum of LNG systems presently under discussion, nor is it the purpose here to forecast the eventual realization of the project. However, the fact is that a substantial portion will come to fruition, and it is Eximbank's desire to maximize its support for the potentially tremendous export market for U.S. equipment and services.

[NOTE: After further review, the Eximbank determined that printing the entire report would not be detrimental to U.S. interests. Thus, the above is the complete report given to the Committee.]

Mr. KEARNS. The same thing is true on copper and other minerals. I mentioned LNG as one, but there are several others in the primary products. It would apply in a somewhat lesser degree.

Mr. PASSMAN. You are really in grand form today.

Mr. KEARNS. You are talking about something I happen to know something about.

PROFITABILITY OF BANK OPERATIONS TO U.S. ECONOMY

Mr. PASSMAN. Mr. Kearns, on balance, I think you are doing a superb job. I think the Export-Import Bank is one of the U.S. agencies that we can point to with pride and one that has earned a tremendous profit, not only for the American producers, but for the Treasury. I am interested in the profit picture.

We think of organizations, a bilateral organization because your loans are made to finance American commodities and it is always paid back into the Export-Import Bank and it would be bilateral in nature, would it not?

Mr. KEARNS. Yes.

Mr. PASSMAN. Could you tell the committee when the Export-Import Bank was organized, when the charter was first isued?

Mr. KEARNS. Its stock was originally held by the Reconstruction Finance Corporation.

Mr. PASSMAN. What was the date?

Mr. SAUER. February 12, 1934, Mr. Chairman.

EXPORT SALES SUPPORTED BY THE BANK SINCE ITS INCEPTION

Mr. PASSMAN. Do you have any idea of the volume since that time?

Mr. KEARNS. About $61 billion in export sales supported.

Mr. PASSMAN. That is all for American-produced commodities?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. Under the charter it is entirely to finance American commodities?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. Do you have any idea what the profit has been for the producer, processor, or manufacturer?

TAX REVENUES AND U.S. JOBS RESULTING FROM BANK-SUPPORTED TRANSACTIONS

Mr. KEARNS. We did some studies on this, using the best information we have and I think there would be approximately $15.2 billion in corporate and personal taxes that were paid to the Federal Government as a result of the volume of business we did.

Mr. PASSMAN. $15 billion?

Mr. KEARNS. That is right.

Mr. PASSMAN. Paid into the U.S. Treasury. How many jobs did it provide annually?

Mr. KEARNS. We estimate it has created or will create about 4.2 million full-time jobs. We would have to divide that by the number of years to set an annual average, but the annual average wouldn't be very accurate because the total covers a long period when there wasn't much business.

BANK'S CURRENT LOAN EXPOSURE

Mr. PASSMAN. What do you have outstanding at the present time?

Mr. KEARNS. $6.5 billion in loans and about $18 billion in total obligations.

Mr. PASSMAN. Let's take loans. $6.5 billion is owed to the United States at this time?

Mr. KEARNS. That would be in direct loans.

LOAN TERMS

Mr. PASSMAN. What are the average terms? What would the payout be on the average?

Mr. DUGAN. About 7.5 years.

Mr. PASSMAN. That is taking the minimum and maximum?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. What is the minimum term of credit you will extend?

Mr. KEARNS. On direct loans, the minimum would be a year.

Mr. PASSMAN. And the maximum?

Mr. KEARNS. The maximum would be 20 years on nuclear powerplants.

Mr. PASSMAN. The average would be 7.5 years?

Mr. DUGAN. Yes.

Mr. PASSMAN. On balance if you started off with $6.5 billion for losses, the Government would still be some $9 billion ahead into the U.S. Treasury?

Mr. DUGAN. Something like that.

Mr. PASSMAN. I think it is a marvelous record and one that you should be proud of. It is one that I am proud of. If we are going to have a program, I think the Export-Import Bank is one we should tie heavily to because without exception it is to finance U.S. commodities, it is on reasonable terms and your record is excellent.

I want to say to you, Mr. Kearns, you have done a superb job. I am not prone to be complimentary of bureaucrats because I am certainly

not a foreign aid enthusiast, but if this is tied into the bill this committee handles, we want to point out the good things as we go along. You have an operation of which you should be proud.

What are your estimates of profits for fiscal year 1973?

Mr. KEARNS. I would like to correct the record. I didn't do it. The team did it. The Export-Import Bank team did it.

Mr. PASSMAN. You are very modest and, of course, you have a great team. You take the old veteran over here, Mr. Sauer, he will sit here 2 days and smile, but he will never say anything.

Let's give the team credit.

BANK'S PROFIT IN FISCAL YEAR 1972 AND ESTIMATED PROFIT FOR FISCAL YEAR 1973

Mr. KEARNS. Our profit last year was $148 million. This year it will be slightly less.

Mr. PASSMAN. What is it for 1973?

Mr. DUGAN. About $145 million before payment of claims.

Mr. PASSMAN. What are your expenditures out of that?

What is the total administrative expense for operating this business to earn this profit?

Mr. KEARNS. $8.4 million.

PERCENTAGE OF ADMINISTRATIVE COSTS TO PROFITS

Mr. PASSMAN. So, or a percentage of earnings, your overhead is what?

Mr. KEARNS. It is about 5 percent.

Mr. PASSMAN. That is a commendable record also. I have had a little experience in banking, mostly borrowing and extending notes.

Mr. CONTE. I might say, Mr. Chairman, that compliment to Mr. Kearns from you is really something. I have been on this committee something like 14 years, and a compliment coming from the chairman is quite unusual.

Mr. PASSMAN. I have been complimentary of Mr. Kearns before because he is running a good shop.

We have this arranged so the money comes back to the U.S. Treasury. You have too good an operation for me to personally recommend any reductions.

Mr. ROYBAL. There is a call of the House, Mr. Chairman.

Mr. PASSMAN. $7,650 million is the program activity limitation requested?

Mr. KEARNS. Yes.

ESTIMATE OF EXPORTS TO BE SUPPORTED FROM BANK'S FISCAL YEAR 1974 BUDGET REQUESTS

Mr. PASSMAN. How much volume will this generate?

Mr. KEARNS. We should be able to generate about $12 billion.

Mr. PASSMAN. That is tremendous because actually you generate almost twice the volume from the amount of money that you want to use to finance these commodities.

Mr. KEARNS. The $7.6 billion isn't money we loan; that includes insurance and guarantees. The money we loan is even less than that.

Mr. PASSMAN. What is the amount that you loan?

FISCAL YEAR 1974 LOAN ESTIMATE

Mr. DUGAN. Regular loans are about $4 billion.

Mr. PASSMAN. If you compare the volume to the lending function, it generates about $3 in volume for each dollar that you lend; is that correct?

Mr. KEARNS. Yes.

INCREASE IN ADMINISTRATIVE EXPENSE REQUEST

Mr. PASSMAN. Are you asking for an increase in administrative expense?

Mr. KEARNS. A 3-percent increase, Mr. Chairman.

Mr. PASSMAN. Three percent over the previous year?

Mr. KEARNS. Yes.

Mr PASSMAN. How much are you increasing your volume?

Mr. KEARNS. We are increasing our volume about 12 percent.

Mr. PASSMAN. We will take a brief recess.

[Recess.]

Mr. PASSMAN. The committee will come to order.

Mr. Kearns, would you explain in layman's words the part of your operation that deals with reserves on finances that move through banks?

DISCOUNT LOAN PROGRAM

Mr. KEARNS. Yes. It was our belief, as it has been for sometime in the exporting community, that most transactions should be handled by private banks. But, as you well know, the money supply, that is, the supply and demand, changes constantly. Usually the low man on the totem pole, the one who gets the last break, is the exporter because the banker will nearly alawys take care of his domestic customers first.

It has been the contention of the exporting community, long before we were in the Bank, that there needs to be some program to assure financing for exports regardless of the money supply. Before we came into Eximbank there was a bank discount program which was designed to provide a means by which banks could go to the Export-Import Bank and borrow against their export paper if they needed to.

We analyzed this operation and came to the conclusion it wasn't functioning properly. There were only 27 banks using it and most of them were confined to the money centers of New York, Chicago, and San Francisco.

We revised it, after much discussion with the banks and exporters, to simplify the operation and make it more readily usable. We told every bank that if they will come to us whenever they have a potential export transaction, we will study the transaction and if it meets our criteria, we will give them a commitment to discount if they need the money during the life of that contract.

Once they get that advance commitment, then they go ahead and make their loan. If they find themselves in a liquidity shortage, they can come to the Export-Import Bank and we will loan against that transaction, either 1 percent below what they have charged the customer, or our Treasury rate of money at that time, whichever is the higher.

It has put these banks into a confident position in going out and telling exporters that if they will sell their products, the banks will be prepared to finance them regardless of what happens in the money market.

It is really working out well.

We are now receiving requests for advance commitments to discount at the rate of about $40 million a week, which would total out at about $2 billion for the year.

The main thing it has done is give confidence to the banks and the exporting community so that we are getting this marketing effort we discussed earlier.

ACTUAL AND ESTIMATED AUTHORIZATIONS BY COUNTRY—FISCAL YEAR 1973

Mr. PASSMAN. Mr. Kearns, it will be rather voluminous, but I think it is important because we are dealing with a limitation on program activity of $7,650 million. Could you place in the record the number of nations that you have had business with indicating the name of the country and the amount?

Mr. KEARNS. Yes, sir. Would you like the exposure or the total amount we have made credits available to?

Mr. PASSMAN. I would like the exposure. We would like to know the nation—as I say, it is going to be a long list, but I think it will be worth something to the committee, and the Congress, and the people, to know the countries you are making loans to.

Mr. KEARNS. Two figures. All the credits that have gone to a country and the exposure that we have at this moment.

Mr. PASSMAN. What do you mean by exposure?

Mr. KEARNS. That means the total exposure we have on loans, guarantees and insurance.

Mr. PASSMAN. That is good, but I would like it to be all inclusive. I think it should be there so members reading the record will understand that you are doing business with 137 markets.

Mr. KEARNS. Yes. If we may do it that way because that is the way our computers are set up, by markets, rather than nations.

Mr. PASSMAN. Do it in the simplest way so we can determine what nations you are financing commodities to. That would be the present fiscal year. I don't think it is necessary to have what you project for 1974, if you can give it to us for fiscal 1973.

Mr. KEARNS. March 31 of 1973?

Mr. PASSMAN. You operate on a fiscal year basis. You might as well give us a projection because you know the loans that have presently been approved and so forth.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

AUTHORIZATONS BY COUNTRY JULY 1, 1972, THROUGH APRIL 30, 1973, WITH ESTIMATE FOR MAY AND JUNE 1973

The following schedule lists authorizations by country for the period July 1, 1972, through April 30, 1973. Although estimates can be made of activity for the remainder of fiscal year 1973, it is extremely difficult to accurately estimate by country. Therefore, the estimates of activity for May and June 1973 are shown as a line item at the end of the schedule together with an estimated total for the entire fiscal year.

	Loans	Guarantees	Medium term insurance	Short term insurance	Total
Afghanistan				43,376	43,376
Algeria	186,107,828	242,852,658	2,381,200	1,301,688	432,643,374
Andorra				200	200
Angola		141,138	4,791,819	2,830,223	7,763,180
Argentina	24,572,853	47,705,273	21,108,952	9,162,111	102,549,188
Australia	20,149,940	9,572,405	2,994,593	20,557,898	53,274,837
Austria			403,589	2,820,722	3,224,311
Bahrein			413,500	314,820	728,320
Barbados	450,000	454,677	66,900	1,795,726	2,807,303
Belgium		4,294,462	648,102	12,028,191	16,970,756
Bermuda				1,420,829	1,420,829
Bolivia		353,870	4,193,163	1,184,184	5,731,216
Botswana				218	218
Brazil	125,851,977	90,252,515	58,765,750	61,588,524	336,458,766
British Honduras			40,300	450,536	490,836
Brunei	4,500,000	4,500,000		2,659	9,002,659
Burma, Union of				5,635	5,635
Burundi				2,271	2,271
Cameroon, Federal Republic of			475,000	285,211	760,211
Canada	73,301,962	1,234,004	10,646,751	67,882,006	153,064,723
Canary Islands				392,378	392,378
Cape Verde Islands				36,817	36,817
Central African Republic				85,106	85,106
Chad				13,500	13,500
Chile			2,580	2,882,919	2,885,498
China, Republic of (Taiwan)	95,833,286	175,436,963	1,619,800	6,216,281	279,106,329
Colombia	375,499	19,378,680	22,585,716	8,328,133	50,668,028
Costa Rica	791,374	7,508,995	9,977,213	8,090,534	26,368,116
Cyprus			117,000	292,564	409,564
Dahomey				102,099	102,099
Denmark	18,579,600	854,012	893,038	7,892,624	28,219,274
Dominican Republic	8,114,600	12,456,169	2,392,356	2,797,384	25,760,510
Ecuador	142,778	5,417,649	5,970,802	6,495,879	18,027,109
El Salvador	88,070	1,077,547	2,748,411	6,837,360	10,751,389
Ethiopia			21,100	89,467	110,567
Faroe Islands				(8,099)	(8,099)
Fiji Islands			135,000	16,217	151,217
Finland	1,485,000	1,935,780	733,248	6,363,193	10,517,220
French Territory of the Afars and Issas				12,049	12,049
France	13,298,886	5,729,651	3,432,946	51,898,004	74,359,487
Gabon	1,896,750	2,196,982	966,600	160,012	5,220,344
Gambia, The				33,098	33,098
Germany, Federal Republic of	19,853,029	3,715,267	2,946,647	112,393,132	138,908,075
Ghana				121,406	121,406
Gibraltar				16,491	16,491
Greece	1,440,000	8,663,778	8,801,127	3,764,943	22,669,847
Greenland				11,088	11,088
Guatemala		782,501	5,295,818	7,629,942	13,708,261
Guiana-French				45,782	45,782
Guinea			650,700	65,306	716,006
Guyana	2,449,870	2,694,370		2,427,776	7,572,016
Haiti				120,418	120,418
Honduras	2,538,346	4,747,178	5,472,605	3,819,766	16,577,894
Hong Kong	2,137,434	1,305,000	2,143,117	9,438,316	15,023,867
Iceland			61,800	1,193,932	1,255,732
India	2,700,000	2,811,100	875,600	(95,832)	6,290,868
Indonesia	17,669,250	18,000,000		1,288,780	36,958,030
Iran	136,406,256	147,007,303	14,949,130	5,403,012	303,765,701
Iraq				68,662	68,662
Ireland		607,500	320,800	3,126,372	4,054,672
Israel	21,265,984	6,825,610	1,454,442	10,383,787	39,929,824
Italy	42,877,500	254,700	6,166,366	80,416,099	129,714,664
Ivory Coast, Republic of the	1,957,645	2,097,495	625,623	1,227,071	5,907,834
Jamaica		4,567,700	2,253,415	11,532,969	18,354,084
Japan	22,309,466	16,646,100	1,075,324	117,656,509	157,687,399
Jordan	1,562,330	2,514,330	144,900	100,240	4,321,800
Kenya	810,000	987,811	461,183	766,797	3,025,791
Korea, Republic of	50,611,474	39,002,801	13,098,000	7,240,811	109,953,086
Kuwait		471,400	13,929,252	3,272,615	17,673,267
Lebanon		539,400	1,482,629	2,605,247	4,627,276
Liberia	9,356,850	2,300,902		783,764	12,441,517
Libya			561,600	719,410	1,281,010
Liechtenstein		405,000		154,219	559,219
Luxembourg	382,500			83,416	465,916
Macao				62	62
Madeira Islands				3,236	3,236
Malagasy Republic				597,579	597,579
Malawi				25,930	25,930
Malaysia, Federation of	1,575,000	2,385,000	831,286	3,367,303	8,158,588
Maldive Islands				34,131	34,131
Mali	745,200	923,700	95,200	13,674	1,777,774
Malta				90,662	90,662

	Loans	Guarantees	Medium-term insurance	Short-term insurance	Total
Mauritania		592,200	445,500		1,037,700
Mauritius				75,112	75,112
Mexico	134,812,726	56,698,485	74,295,950	64,345,405	330,152,566
Monaco				14,759	14,759
Morocco	3,540,000		540,300	537,257	4,617,557
Mozambique	852,046	2,967,485	5,242,024	351,254	9,412,809
Netherlands	5,175,000	720,900		66,950,013	72,845,913
New Caledonia			133,700	117,890	251,590
New Hebrides				55,039	55,039
New Zealand		456,296	1,782,229	5,204,926	7,443,451
Nicaragua		2,959,389	1,106,940	4,347,426	8,413,755
Niger			243,000	1	243,001
Nigeria	1,890,000	2,929,400	3,994,104	9,033,089	17,846,593
Norway	30,445,000	1,949,234	2,855,548	3,872,467	39,122,249
Oman				33,954	33,954
Pacific Islands-British				1,577	1,577
Pacific Islands-French				37,619	37,619
Pakistan	2,812,094		264,000	277,455	3,353,549
Panama	37,179,195	24,023,718	5,079,217	12,768,958	79,051,088
Paraguay		586,171	1,309,290	905,201	2,800,661
Peru		10,656,000	16,058,415	7,772,700	34,487,115
Philippines	21,672,689	26,203,198	2,841,351	4,459,433	55,176,671
Poland	14,603,850	8,910,000			23,513,850
Portugal	817,670	886,500	150,500	4,142,882	5,997,552
Qatar				379,637	379,637
Reunion Island				104,697	104,697
Romania	34,231,189	23,904,100	636,300	3,314,481	62,086,070
Rwanda				40,122	40,122
Ryukyu Islands			7,500	328,154	335,654
Saudi Arabia		1,870,300	1,937,605	9,119,325	12,927,230
Senegal				535,381	535,381
Seychelles				2,674	2,674
Sierra Leone				18,492	18,492
Singapore	29,642,374	31,191,755	2,143,980	9,265,326	72,243,435
Somali Democratic Republic				116,729	116,729
South Africa, Republic of		34,402,964	7,657,725	20,861,016	62,921,704
Spain	65,715,920	79,065,435	3,463,852	65,206,371	213,451,578
Sri Lanka			164,200	22,164	186,364
St. Pierre and Miquelon				15,956	15,956
Sudan, The	12,397,500	10,779,450	4,747,500	62,379	27,986,829
Surinam		459,000	431,500	1,265,437	2,155,937
Swaziland			177,400	8,030	185,430
Sweden	48,461,400	7,372,805	2,803,047	12,826,809	71,464,061
Switzerland	15,736,000	1,858,470	94,939	743,091	18,432,500
Tahiti			86,501	867,177	953,677
Tanzania				372,224	372,224
Thailand	1,215,841	1,897,433	1,842,525	2,428,780	7,384,580
Timor				92	92
Togo, Government of				773,875	773,875
Trust Territory Pacific Islands (United States)				14,614	14,614
Trinidad and Tobago			289,845	6,222,307	6,512,152
Trust Territory of New Guinea	5,000,000	5,014,175		41,716	10,055,891
Tunisia	3,150,000	3,150,000		18,031	6,318,031
Turkey	36,098,869	32,246,800	6,179,050	872,413	75,397,131
Uganda				52,243	52,243
Union of Soviet Socialist Republic	101,223,562	17,325,000			118,548,562
United Arab Emirates		3,000,000	411,900	735,172	4,147,072
United Kingdom	24,051,459	2,605,404	5,688,338	82,356,523	114,701,725
Upper Volta				92,010	92,010
Uruguay		765,000	592,604	1,063,838	2,421,443
Venezuela	14,433,760	34,360,823	38,261,482	52,554,181	139,610,245
Vietnam, Republic of				1,527,067	1,527,067
Virgin Islands—British				95,883	95,883
West Indies—French			356,200	617,101	973,301
West Indies—Netherlands				4,317,522	4,317,522
West Indies—British (all other)		61,400	276,154	1,398,196	1,735,750
West Indies—British (Antigua)				548,790	548,790
West Indies—British (Bahamas)	1,992,692	2,965,760	719,750	3,213,373	8,891,575
Western Samoa				58,655	58,655
Yemen Arab Republic			217,600	15,034	232,634
Yemen, Peoples Democratic Republic of				11	11
Yugoslavia	41,173,652	55,700,087	5,302,400	4,216,563	106,392,702
Zaire	10,626,278	10,659,178	551,055	1,222,686	23,059,196
Zambia	9,104,400	11,201,800	2,501,051	388,711	23,195,962
Various European countries				(1,081,506)	(1,081,506)
Various countries—unallocable		351,168			351,168
Private Export Funding Corp	3,552,437				3,552,437
Discount loans to various U.S. banks	1,328,974,885				1,327,448,442
Total through April 30, 1973	2,954,771,026	1,416,396,661	446,106,060	1,159,163,337	5,976,437,085
Estimate May and June 1973					2,000,000,000
Estimate total fiscal year 1973					7,976,437,085

LIMITATION ON PROGRAM ACTIVITY—FISCAL YEAR 1974

Mr. PASSMAN. Now again, there may be those who do not deal with this matter daily. Let's look at your limits on program activity. You are asking for a limitation of $7,650 million for fiscal year 1974, is that correct?

Mr. KEARNS. That is correct.

Mr. PASSMAN. What will be the direct loans for fiscal 1974?

Mr. KEARNS. Around $4 billion.

Mr. PASSMAN. Now, the difference of $3,650 million, why do you need that?

Mr. KEARNS. That is accounted for by discount loans and the auxiliary programs, the insurance and guarantee programs.

Mr. PASSMAN. In other words, you have to maintain a reserve?

Mr. KEARNS. In the combination of things, we do. You have to have the resources to do all of the things and not just the loans. The loans are only one part.

Mr. PASSMAN. I know that is true, but you are dealing yet with $7,650 million. Direct loans will be only $4 billion so then you have $3,650 million that you spread out in other activities?

Mr. KEARNS. Yes.

Mr. PASSMAN. How do you utilize it?

Mr. KEARNS. Approximately $2.8 billion would be for the discount program.

Mr. PASSMAN. What do you mean, "discount program"?

Mr. KEARNS. That is the one I just described of the programs to back up the private banks.

Mr. PASSMAN. That is a reserve that you maintain then?

Mr. KEARNS. That is true. We expect that we will commit it. We may not disburse it, but we will commit it during the year.

Mr. PASSMAN. It sounds a little complicated, to be frank with you.

Mr. KEARNS. It is that.

Mr. PASSMAN. And I don't think it should be. There should be some way of clarifying it to where it would be easily understood because you are actually only going to disburse $4 billion. Yet you want $7,650 million. There should be some simplified way of stating it.

Mr. KEARNS. I think in our schedule——

Mr. PASSMAN. Can you come up with a simplified formula and put it in the hearings at this point?

Mr. KEARNS. We can break down how we arrived at the $7,650 million.

[The information follows:]

Export-Import Bank of the United States, estimated activity, fiscal year 1974

Loan program:	*Thousands*
Equipment and services authorizations	$3,850,000
Commodity authorizations	100,000
Medium-term discount authorizations	1,900,000
Short-term discount authorizations	1,600,000
Special foreign trade authorizations	50,000
Subtotal, gross loan authorizations	7,500,000
Less: Participations in and cancellations of loans authorized during fiscal year 1974	735,000
Net loan authorizations	6,765,000

Export-Import Bank of the United States, estimated activity, fiscal year 1974—Continued

Guarantee and insurance program:	
Authorization of new and renewed policies	6,200,000
Less: Repayment and cancellations on guarantees and insurance	3,936,880
Subtotal	2,263,120
Less: Reduction from use of fractional reserve and adjustments	1,704,840
Charge to new program activity for guarantees and insurance	558,280
Other charges:	
Interest and nonadministrative expenses [1]	326,620
Equipment [1]	100
Total other than for administrative expenses, that is, "New program activity"	7,650,000

[1] On the accrual basis.

LOAN AUTHORIZATIONS

Mr. PASSMAN. You are really only going to disburse $4 billion?

Mr. KEARNS. That is commitment authority under the loan program. We will commit about $2.8 billion for the discount program, which we may or may not disburse, and we will insure——

Mr. PASSMAN. What if the committee just gave you $4 billion? How would it hamper your operations?

Mr. KEARNS. If that is all we had it would cut out the discount program and our insurance and guarantees.

Mr. PASSMAN. What do you mean by the "discount program"?

Mr. KEARNS. We can give it another name, but it is the program that I described where we back up banks by offering to loan against a priavte bank's loans for export.

Mr. PASSMAN. That is additional exports?

Mr. KEARNS. That is additional exports, yes.

Mr. PASSMAN. So you are making the loans to the banks or are you making a deposit to guarantee payment?

Mr. KEARNS. We make the loan to the bank if they need it against their export paper.

Mr. PASSMAN. If they don't need it, what?

Mr. KEARNS. It is just authority. All we are asking from you is authority—not money. All we are asking for here is program authority. Authority to do things—not money.

INSURANCE AND GUARANTEES OUTSTANDING

Mr. PASSMAN. I know that. How about your insurance? How much insurance do you have outstanding at this time?

Mr. DUGAN. It is about $7 billion for insurance and guarantees.

Mr. PASSMAN. By exposure you mean insurance outstanding, and if everything failed, you would have to pay?

Mr. KEARNS. That is right.

RECEIPTS FROM INSURANCE PREMIUMS COMPARED TO CLAIMS PAID

Mr. PASSMAN. Explosure doesn't make it clear enough for me. That is $7 billion outstanding. What has been your experience with the insurance, premiums versus payouts?

Mr. DUGAN. The insurance program by itself pays out slightly more than the premiums received.

Mr. PASSMAN. Place in the record at this point premiums collected and the claims that you have paid.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES—SUMMARY OF INCOME, EXPENSES, AND NET CLAIMS PAID FROM INCEPTION TO DEC. 31, 1972, INSURANCE PROGRAM

	Claims paid	Claims recovered	Cumulative totals
Gross income [1]			$9,712,169
Less administrative and other expenses			7,838,900
Operating income			1,873,269
Less claims paid, net of recoveries	$14,365,985	$8,187,307	6,178,678
Net income			(4,305,409)
Less allocable portion of dividends			123,447
Addition to Retained Income Reserve			(4,428,856)
Add deferred income			1,521,584
Total contribution of program available to cover future losses and expenses			(2,907,272)

[1] Represents EIB share of FCIA net earnings (gross premiums less commissions and expenses) on the accrual basis.

DELINQUENCIES

Mr. PASSMAN. You said earlier you lost $122 million?

Mr. KEARNS. Total delinquencies are currently $196 million. This isn't necessarily lost. We have charged off only $20 million since the Bank began.

Mr. PASSMAN. Place in the record at this point the accounts delinquent by nation.

[The information follows:]

SCHEDULE OF DELINQUENT INSTALLMENTS OF 30 DAYS OR OVER AS OF MAR. 31, 1973

[Dollars in thousands]

Country	Number of loans	Oldest past due installment	Total O/S balance	Delinquent installments		
				Principal	Interest	Total
Antigua	1	1972	$5,337.1	$87.1	0	$87.1
Argentina	3	1966	1,484.6	1,484.6	$134.3	1,618.9
Chile	27	1971	310,195.3	64,967.5	25,714.5	90,682.0
Guinea	1	1973	224.5	45.0	7.1	52.1
Mexico	1	1970	1,082.2	1,082.2	129.5	1,211.7
Nicaragua	1	1973	391.7	66.7	11.3	78.0
Sierra Leone	1	1971	10,200.0	0	1,724.4	1,724.4
Togo	1	1973	600.0	0	17.9	17.9
United Arab Republic	1	1973	1,482.0	781.3	51.3	832.6
Zaire	1	1973	353.4	0	7.6	7.6
Cuba	6	1958	38,559.8	31,025.3	26,931.2	57,956.5
China (Mainland)	4	1949	26,386.0	22,935.0	19,123.4	42,058.4
Total	48		396,296.6	122,474.7	73,852.5	196,327.2

RESCHEDULED LOANS

Mr. PASSMAN. You have a system you refer to as the "roll-over" of these accounts.

Mr. KEARNS. Rescheduling, we call it.

Mr. PASSMAN. You have changed the name of it because your predecessor used to say "roll-over." If you will, could you tell us the volume that you have rolled over, or rescheduled?

Mr. KEARNS. With your permission, we will submit it for the record.
Mr. PASSMAN. Do you have any idea at this time of the amount?
Mr. KEARNS. It isn't a great deal, I don't think.
Mr. DUGAN. Slightly over a billion dollars since inception.
Mr. PASSMAN. The new expression is rescheduled.
Mr. KEARNS. We will call it rolled-over.
[The information follows:]

LOANS RESCHEDULED DURING FISCAL YEAR 1973 (THROUGH MAR. 31, 1973)

[Dollars in thousands]

Country	Number of loans	Amount rescheduled		
		Principal	Interest	Total
Ethiopia	1	$1,720.0	0	$1,720.0
Pakistan	12	6,175.3	$2,812.1	8,987.4
Philippines	1	1,675.0	0	1,675.0

Mr. PASSMAN. How many times have you rescheduled or rolled over the same account?
Mr. DUGAN. That varies.
Mr. SAUER. My recollection is it is not more than one or two cases where we have had to reschedule, or roll-over, more than once. Generally when we have a rescheduling of repayment, it is lived up to.
Mr. KEARNS. If they come in for a roll-over with us, we are hesitant to give new credit until they dispose of the old credit. We won't loan anyone any money if they are completely delinquent.

INSURANCE PROGRAM EXPENSES

Mr. PASSMAN. Going back to the insurance, what have been your receipts and what have been your payouts?
Mr. DUGAN. I am not sure of the figures, Mr. Chairman, but the payouts are slightly higher than the premiums.
Mr. PASSMAN. What kind of payouts would you have against insurance premiums?
Mr. DUGAN. The administrative expenses to run the program plus any claims we have paid and not yet recovered.
Mr. PASSMAN. You have had so few losses how could you have so many claims, or is that a different phase of the operation?
Mr. DUGAN. We haven't had many of them. You have to recognize that the insurance premiums are not that high and the payout figure I refer to includes the administrative expenses attributable to the insurance program.
Mr. PASSMAN. You insure only the commodities you sell. You don't insure some other operation other than Export-Import Bank.
Mr. KEARNS. We only insure repayment of an obligation. We are not involved in physical insurance at all.
Mr. PASSMAN. If you say that your payouts slightly exceed your receipts and premiums, most of that would be administrative expense, would it not?
Mr. KEARNS. Actually on insurance and guarantees, my figures are——
Mr. PASSMAN. Would you place something in the record on that?
[The information follows:]

SUMMARY OF INCOME, EXPENSES, AND NET CLAIMS PAID FROM INCEPTION TO DEC. 31, 1972—GUARANTEE PROGRAM AND INSURANCE PROGRAM

[In thousands of dollars]

	Commercial bank guarantee program			Insurance program		
	Claims paid	Claims recovered	Cumulative total	Claims paid	Claims recovered	Cumulative total
Gross income			[1] $26,244			[2] $9,712
Less administrative and other expenses			9,226			7,839
Operating income			17,018			1,873
Less claims paid—net of recoveries	$12,648	$2,241	10,407	$14,366	$8,187	6,179
Net income			6,611			(4,306)
Less allocable portion of dividends			4,499			123
Addition to retained income reserve			2,112			(4,429)
Add deferred income			3,015			1,522
Total contribution of program available to cover future losses and expenses			5,127			(2,907)

[1] Represents fees collected, less amounts deferred to future periods, plus prior deferrals earned in current period.
[2] Represents EIB share of FCIA net nearnings (gross premiums less commissions and expenses), less amounts deferred to future periods, plus prior deferrals earned in current periods.

Mr. PASSMAN. Mr. Miller.

WORLDWIDE ENERGY REQUIREMENT

Mr. MILLER. Mr. Kearns, you state at the bottom of page 2 that the volume of world trade accelerates significantly as industrial countries must import more primary products including energy. That fascinates me a little bit when you speak of energy. How would you be able to help in that area?

Mr. KEARNS. It would be in liquefied natural gas, which is rapidly developing into one of the massive new industries. Export-Import Bank will undoubtedly, with the concurrence of this committee, be a major factor in making these projects possible. It takes so much money that there is no other way that a developer could marshal that amount. We are not involved at this time in any liquid petroleum transactions for direct export. However, we do finance some exploration and development where American equipment is used—the equipment for exploration and oil production in various parts of the world. That part of the energy program does use large sums of money.

OTHER EXPORTS RELATED TO FUELS DISTRIBUTION

Mr. MILLER. You would be involved in shipbuilding in order to transport?

Mr. KEARNS. We could be, if the ships are sold to a buyer outside the United States.

Mr. MILLER. You are speaking of superports in several cases?

Mr. KEARNS. Yes, we are financing some of the equipment that goes into ports in various countries.

Mr. MILLER. The commodity itself is rather expensive when you ship it on a supertanker. Would you be involved where you have money invested in that commodity itself?

Mr. KEARNS. I think not because for us to participate it would have to be an export and I don't think there is much chance of our exporting many of the commodities, although there is one transaction now—but it is not energy—involving an arrangement to sell super phosphoric acid, a liquid, where there would be an export from the United States. But you see we only finance exports. If there is an import involved, we can finance the ships which carry that import if they are owned outside the United States, but we would not finance the commodity unless it is an export itself.

PRICE COMPETITIVENESS OF U.S. PRODUCTS

Mr. MILLER. You also say the U.S. products are now priced competitive in nearly all categories. Could you elaborate a little on that?

Mr. KEARNS. Yes, sir. I have just completed 6½ weeks in 12 countries of very extensive discussions with buyers of all types, private and public. I have tabulated the information from those discussions for my own and my colleagues' benefit, and I could give the information to the committee if you would like it—that is, the comments of a very wide range of potential buyers. It leaves absolutely no question that U.S. products today are price competitive in almost every category.

Mr. MILLER. Where are we not competitive? Can you somehow inform us as to where we are out of line the most?

Mr. KEARNS. Well, yes. Things that require a high degree of hand labor. For example, handicrafts; these small electronic gadgets where you have to have a lot of people working with hand labor; in those we are not. Or in things like a commodity that is unique to a locality, such as coffee or cocoa, or such as that, we would not be price competitive, of course.

In some countries the government gives a subsidy to a producer. We may not be price competitive in that case. That would only be a relatively small percentage of total trade or of the total products that move.

I think that in all manner of equipment, in most consumer goods products, and certainly in all agricultural products, we are price competitive today.

FAVORABLE U.S. BALANCE OF PAYMENTS IMPACT FROM EXIMBANK-SUPPORTED EXPORT SALES

Mr. MILLER. In the year 1972 you indicated that the Export-Import Bank contributed an estimated $3 billion to the credit side of the U.S. balance of payments. What products were most profitable as far as we were concerned or what was the high volume product?

Mr. KEARNS. Well, the high volume product for a period of 4 or 5 years was jet aircraft, but this changes. You see, we have a time lag from the time a credit is authorized until it becomes an export. In last year's authorization nuclear powerplants exceeded jet aircraft.

This year I would suppose that liquefied natural gas projects would exceed either one. This changes from time to time. As the mix of world trade changes, or the U.S. suppliers sell different products—particularly when you get to the very big items that run into many millions of dollars each—the pattern changes. But you have a trade base composed of all kinds of things.

I maintain that anything that can be sold in the United States can be sold in some country in the world if we have a business that will try to sell it.

So you have tens of thousands of small transactions made up of everything. Then you have a few of the very big ones and the big ones can change the totals, but they don't change the total pattern.

ENVIRONMENTAL IMPACT FROM NUCLEAR POWER EXPORTS

Mr. MILLER. It is interesting here to see that nuclear powerplants moved out ahead of jet aircraft.

Since you have been to the other nations, are they as interested in the environment as we are. Are they buildings nuclear powerplants, forgetting environment?

Mr. KEARNS. Some nations are. Japan is most interested in the environment, but the Japanese have concluded that the nuclear powerplants provide less pollution than do any others, and so this is one of the reasons why they are switching to nuclear powerplants.

There are other countries who don't pay quite as much attention to it, but we pay attention to it. We take it into consideration in all of our case examinations.

Mr. MILLER. What I really had in mind with respect to the environment, is the thermal pollution. I wasn't sure whether they did pay attention to that.

Mr. Chairman, we will not go into this. It is good information but not directly related to banking. Perhaps some time we can chat about this.

Mr. KEARNS. With regard to pollution in Japan, before the first nuclear powerplants were built there, there was a lot of fuss that fishing would be harmed by the discharge of the hot water into the waters surrounding Japan.

They went in and installed the first nuclear plant, anyhow. But the funny thing that happened was that with the discharge of water, instead of disturbing the fish, it became the best fishing ground in Japan because the fish all congregated around there.

Now the fishing villages would rather have a nuclear power plant than not.

Mr. MILLER. That is very interesting.

Thank you, Mr. Chairman.

COMPETITIVENESS OF U.S. STEEL PRODUCTS

Mr. PASSMAN. Mr. Kearns, I am impressed with your knowledge of a lot of things. I believe I could quarrel with you and maybe win the argument if we got into coldblooded statistics on some of the things we have discussed and, no doubt before the year is over, will discuss.

I think we all know that it is predicted that within a matter of years, unless we change our system, the big steel plants in this country will be agents for the steel plants of Japan. Let's look at practically every steel commodity that you can think of, whether it is stainless steel or whether it is other types of steel, you can buy them and Japan can pay the duty, pay the freight, and deliver them dock-

side about $295 a ton cheaper than you can buy them out of Philadelphia.

Can you refute the accuracy of that statement?

Mr. KEARNS. I can't refute it, but I disagree with it.

COMPETITIVENESS OF AGRICULTURAL COMMODITIES

Mr. PASSMAN. As a matter of fact, the steel companies will tell you themselves, because it is available to you.

Let's look at agriculture commodities. You are talking about it being competitive. You know we are not competitive in agriculture commodities. We were not until just a few weeks ago. For many, many years, we were selling rice at a tremendous subsidy and we dropped the subsidy only because we ran out of rice. Isn't that true?

Mr. KEARNS. That is true.

Mr. PASSMAN. Let's look at cotton and everything else. We are either paying a subsidy to the exporter or we are paying a subsidy to the mills. I think we switched it from the exporters to the mills and from the mills now back to the producers.

Where do you get the idea we are competitive when the record is just the opposite?

Mr. KEARNS. The record is, but it is like the gooney bird flying backward to see where he has been instead of where he is going. We have to look forward instead of backward.

ACCUMULATION OF U.S. DOLLARS ABROAD

Mr. PASSMAN. You and I know there are $80 billion, United States, floating around the world that people don't want. They have met their commitment to commerce and they have $80 billion, you understand. They want to get rid of them so bad they don't know what to do. We haven't the gold to pay for them; they don't need any more of our commodities.

I just returned from a trip abroad where I had been accustomed to having watches quoted at a price much cheaper than American watches. I can actually buy a watch in America $275 cheaper right downtown at Galts than I can buy it in Hong Kong. They don't want these dollars. There are 80 billion of them floating around the world in excess and we don't have a thing in the world to pay for them with. Some of the hotels are actually making you discount these dollars before they will take them.

Now, let's go on, if we may. I am not lecturing you, but let's put this on the record.

Twenty-seven of these agencies will come before us and they will say, "Don't blame us. We are innocent. It is the other fellow that hurts the balance of payments situation."

Somebody is responsible for this mess we have gotten ourselves into.

TRADE DEFICITS OF 1971 AND 1972

Let's go, if we may, to 1971. We had a trade deficit of $2 billion. An actual trade deficit—the first one we had had since 1888, isn't that true?

Mr. KEARNS. That is right.

Mr. PASSMAN. In 1972, we had a trade deficit of $6.4 billion. Now, that is true, isn't it?

Mr. KEARNS. That is true.

Mr. PASSMAN. You are a fine witness and a fine man but let's look at the record.

BALANCE OF PAYMENTS DEFICIT

Let's look at our budget deficit for fiscal 1973. It is $28 billion, isn't it?

Mr. KEARNS. That is correct.

Mr. PASSMAN. Now, something causes this. You don't have trade deficits and balance of payments deficits unless you send more dollars abroad than you are bringing home. It is that simple, isn't it?

Mr. KEARNS. That is right.

Mr. PASSMAN. You have a good shop but not everything is virtuous about it, you understand. You and I know the claim has been made—I hope that you have refuted it to some extent—that if the Export-Import Bank didn't provide this money, people would take money they already had and buy commodities. How much of that do you discount?

Mr. KEARNS. One hundred percent.

Mr. PASSMAN. You are rather optimistic if you discount it 100 percent.

Let us not make this picture too rosy because we are selling with a subsidy and we are not competitive in many fields.

EXTENT OF BANK SUPPORT FOR AN EXPORT SALE

Now, let's get back to the insurance question. Let's say that the Ouachita National Bank in Monroe wanted to finance $1 million in U.S. commodities to, we will say, Nation A. Will you cover them for the entire amount?

Mr. KEARNS. No.

Mr. PASSMAN. What is the maximum you would make against that?

Mr. KEARNS. The maximum under the bank guarantee program would be 90 percent cover, and then we vary it depending upon the risk and type of transaction.

Mr. PASSMAN. On an average, what would it be across the board?

Mr. BOSTWICK. Under the medium-term discount loan program we would finance 100 percent of the financed portion. It would be at 1 percent below the yield to the bank.

INTEREST RATES CHARGED AND SUPPORTED UNDER VARIOUS BANK PROGRAMS

Mr. PASSMAN. What is the maximum that you can charge?

Mr. KEARNS. We have no maximum. We charge 6 percent on our direct loans. We maintain the standard.

Mr. PASSMAN. That is a maximum?

Mr. KEARNS. That is on direct loans. That shouldn't be confused with the discount program.

Mr. PASSMAN. Now, on the insured part, what is the maximum?

Mr. KEARNS. It would depend on what was negotiated between the borrower and the bank.

Mr. PASSMAN. You couldn't go to 20 percent. Somewhere along the way you have had a maximum. Is it 8 percent? Can the banks charge up to 8 percent?

Mr. KEARNS. We have not placed any limit because the market does that.

Mr. PASSMAN. I am trying to determine how high they can go.

Mr. KEARNS. On one related program, the Cooperative Financing Facility Program where we make the loans to the overseas bank and the bank reloans our money, we allow them 2.5 percent markup to compensate for the risk they take. They can mark up our 6 percent to 8.5 percent.

Mr. PASSMAN. That is my question.

Mr. KEARNS. That is on one program.

Under the other programs where we insure or guarantee a transaction where the money is loaned by the commercial bank, we depend upon the market forces, the competition, to determine what the borrower will pay and what the bank will loan for.

Mr. PASSMAN. Are you getting into marginal credit when you have a borrower willing to pay 8.5 percent?

Mr. KEARNS. No.

Mr. PASSMAN. Why would he want to pay 8.5 percent when he can come to you and make a direct loan at 6 percent?

Mr. KEARNS. He might not know about our bank if he was a small, unsophisticated buyer, or if it came in as a direct loan request where we have to investigate the credit worthiness possibly we couldn't make a decision within his time requirement.

GUARANTEES VERSUS DIRECT LOANS

Mr. PASSMAN. If he knew about the Bank's operation and if he was good enough for you to guarantee, he would be able to do it directly, would he not?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. Any loan good enough for you to guarantee would be good enough for you to make a direct loan to, would it not?

Mr. KEARNS. It would be, but we wouldn't do it that way.

Mr. PASSMAN. Why wouldn't you do it? If the man came to you and said, "I want $5 million to finance this fertilizer sale to country A," you would say, "No, I prefer you to go to the Bank and they will make it available."

Mr. KEARNS. We will say, "We will loan 50 percent of it and you go to a bank for the other 50 percent."

Mr. PASSMAN. He would pay you 6 percent on one-half and the bank perhaps 8.5 percent on one-half?

Mr. KEARNS. On our direct credit program that is right. We would do that because it reduces the amount of cash we have to put out. Second, it encourages the banks to get into the business and stay in, and we think the future of this business is dependent upon how many banks are actually participating.

Mr. PASSMAN. You have had a tremendous increase in the discount program.

Let's look at the short-term discount program. I think you have gone from zero in 1972 to $1.6 billion in 1974.

Mr. KEARNS. Those are the gross authorizations we are requesting.

Mr. PASSMAN. As I say, I have a lot of respect for you but you don't think you are letting this thing get out of control?

Mr. KEARNS. No, sir, we are not.

U.S. COMPETITIVE SITUATION

Mr. ROYBAL. Why do you think you are competitive?

Mr. KEARNS. It is a very dangerous thing for me to differ with the chairman, but I just think what the chairman said was true before we had the currency adjustments.

Mr. PASSMAN. I am talking about last week.

Mr. KEARNS. There is a time lag.

Mr. PASSMAN. Look what we have done to the prestige of the dollar. Let's face up to it. We can't charge this all to you but you have found it the same way in a lot of places.

Mr. KEARNS. All I can tell you is that from our experience in the markets where we are talking to buyers and when we are talking to potential buyers—who are absolutely impartial because they have nothing to gain or nothing to lose—we are told that the U.S. products are competitive.

We also know of situations where a U.S. company is making a proposal in competition with the Japanese, the Germans, the French, where the U.S. producer is price competitive more often than not today. He wasn't a year ago. He wasn't 6 months ago, but he is today.

EFFECT OF CURRENCIES ADJUSTMENTS ON COMPETITIVENESS OF U.S. EXPORTS

Mr. ROYBAL. What makes the difference?

Mr. KEARNS. The currency adjustment. The currency adjustment removed the false value on the leading currencies, the yen and the deutsche mark vis-a-vis the dollar. The dollar was overpriced and they were underpriced. We have just switched that now so that we are now on a relatively——

Mr. PASSMAN. Would you say we have partially switched it? Would you compromise on it?

REVERSAL OF TRADE DEFICIT PREDICTED

Mr. KEARNS. I think in most cases we now have a realistic value on the dollar.

In addition to that, the rate of inflation in this country is so much less than it is in the other countries today, this will continue to stretch the difference further, thus solving the problem.

As the chairman mentioned, we did have this terrible trade deficit in 1971 and in 1972. But I am sure that you all noticed the reports of March 1973 when our trade deficit was down to $52 million.

Now, I maintain that we will cross the line in the next month, maybe this month, where we will have a trade surplus for the first time in 3 years.

I am just saying to you that this is the proof of what I contend.

Mr. PASSMAN. I would also like to show that we had our first trade deficit since 1888, in 1971, and we had some reason to believe that this would be the last year. Yet in 1972 it jumped up to $6.4 billion.

Mr. KEARNS. That is correct.

Mr. PASSMAN. Let's hope our optimism will be sustained with facts subsequently. It won't be your fault if they are not, but so many times optimism is not backed up by facts.

Mr. KEARNS. The facts are our trade deficit was only $52 million in March. From $476 million in the month before.

Mr. PASSMAN. That is nothing to brag about, since we haven't had but two since 1888. Perhaps it should have been on the plus side rather than the minus side.

We are still on the minus side, even after devaluing the dollar.

IMPORTANCE OF TIME-LAG BETWEEN CURRENCY REVALUATION AND ITS EFFECT ON TRADE BALANCE

Mr. KEARNS. There is a time-lag. It doesn't just turn overnight. I maintain that the price situation has changed, and I just invite you to watch the change that takes place.

Mr. PASSMAN. Let's hope it takes place because you and I know we are still in trouble with the dollar. There are still $80 billion floating around the world that people don't want. We don't have the gold to exchange for them. They have met their payments in commerce, and these are just excess. These are the short-term dollars due yesterday. We haven't anything to pay for them with, and they are trying to dump them.

Of course, devaluing the dollar has made some substantial improvements, but you will remember not too long ago—and thank God, President Nixon stopped it—we were going around the world finding every nation who had a foreign exchange surplus; and we tried to borrow from them.

We borrowed $20 million from the Republic of China. We went to Thailand and tried to borrow a quarter of a billion dollars. We compromised and borrowed only $100 million from Thailand, didn't we? At 6 percent to be repaid in 4½ years, and that money is due on July 2.

How many people would believe we were borrowing $100 million from Thailand and giving them just about that much aid through the back door? Some strange things have happened in trying to manipulate the balance-of-payments situation to make it look good.

GAO REPORT ON BANK'S CAPITAL LENDING PROGRAM

In a General Accounting Office report, dated February 12, 1973, it was concluded by GAO that the Export-Import Bank needed an improved management information system for its capital loan program. Some of the remarks were as follows:

(*a*) Although Export-Import Bank participation in financing export transactions may have been necessary to consummate a sale, GAO could not establish that the Bank had made a concerted effort to maximize private financing in these transactions.

(*b*) Information obtained from Japanese borrowers and government officials, and examination of records at the Embassy in Tokyo, showed that the need for Export-Import Bank participation in some export transactions was questionable.

(*c*) Export-Import Bank financing on four loans seemed unnecessary because it was felt that the borrowers would have purchased the goods from the United States without the Bank's financing. Would you please comment on this report?

Mr. KEARNS. This is the "stop beating your wife" question. I know how the GAO reports have a sort of holy atmosphere. If they say something, it is supposed to be right.

We have had discussions with the GAO, and we differ with their opinion. We maintain that the study they made, particularly with respect to Japan, was not well done. It was done by people who didn't understand the international field, and their base of inquiry was so woefully small that it really proved nothing.

We just had a meeting with them last week, in which we went over the procedures that we follow in making a decision, with which they weren't familiar. I just maintain that any transaction that we approve has been given full and complete examination as to whether or not it is necessary to make the transaction possible.

Now, to say that any one transaction could have taken place without Export-Import Bank may be true. "A" transaction. But in a year's time we will do 5,000 or 6,000 transactions, and I don't think we would want to kill the calf because it happened to have a sore ear, or something like that.

That is what it would amount to if we said that because you can find a transaction, or a dozen transactions, or 1 percent of the transactions where that happened we necessarily are wrong.

FINANCING OF JAPANESE AIRCRAFT PURCHASES

For example, this same report says that we should not extend financing to Japanese airlines for aircraft because the Japanese Government has so much money.

Well, it is true that the Bank of Japan had about $19 billion of U.S. reserves, but the privately owned airlines don't have those billions of dollars, that $19 billion, and they haven't access to it. If they can't finance their transactions, they don't buy. Or they can go to Europe to buy airplanes.

If we want our country to sell the product, we must consult with the buyer and seller and do it conscientiously and carefully.

NEED TO LISTEN TO BUYER AND SELLER

Mr. Chairman, you have been in business, and the rest of us have. The way you find out whether you make a sale is whether or not the buyer and seller can get together. Not by some theoretical bit of information.

Anyhow, the GAO says we shouldn't talk to the buyer or the seller because they are interested parties. Well, who in the world do you talk to? You can't get it from a ouija board. So we make a very conscientious effort, and we would invite your staff to come down and see what we do, and learn how we make these decisions.

I absolutely would stand up against anybody on any transaction that we have done with respect to the conscientious effort we made to determine that the financing was necessary. If we find that it isn't we won't do it.

Mr. PASSMAN. Some Embassy officials in Tokyo consider that Japan was capable of and should be encouraged to finance more of its imports

and that such financing would achieve more positive effects on the U.S. balance of payments. Would you like to comment on that, Mr. Kearns?

ARRANGEMENTS WITH BANK OF JAPAN

Mr. KEARNS. I just think it is a mistake in understanding the facts of life. We are encouraging the Japanese to spend their own money and they are doing it.

As a matter of fact, let me tell you what we are doing. I can do this now, I couldn't have done it last year.

I made an arrangement with the Bank of Japan 2 years ago to assist in balancing the flow of trade. Under the agreement we would finance large transactions and, in return, the Bank of Japan would buy back the loans from us for full value at the same interest rate that they were paying.

In other words, in all the big transactions that we have financed in Japan in the last 2 years—the aircraft and the nuclear powerplants—the Bank of Japan has bought those credits right back from us, so they have actually been financing them themselves.

GAO says this is bad because they don't understand it. I don't know how you can do any better than to support the U.S. supplier and keep the market for the United States which is a very big market, and a good market, and still get the money back from them. That is what we are doing today.

ADVANTAGES TO U.S. ECONOMY FROM SALES TO JAPAN

Mr. PASSMAN. Mr. Kearns, we can't isolate ourselves and live. We have to do business with other nations. We have to sell our commodities, regardless of what the Japanese may have thought the advantage would be to buying on credit. I still think you are wise to sell them. When you sold them the aircraft on a loan, it furnished employment to Americans; it made a profit for the manufactures; it made the manufacturer pay money into the U.S. Treasury and any way you slice it, it was an advantage to the United States.

I used to go around the world. I would look out over the airports and see possibly in Europe 75 percent of the planes were American-made planes. Out in the Far East, 90 percent. Today they still buy American planes, but now they could be moving away from them.

May I ask you this question: What have been the total loans, guarantees, and insurance used to finance commodities to Japan, let's say for 1971, 1972, and 1973?

Mr. KEARNS. May I submit it for the record, please?

Mr. PASSMAN. Yes.

Mr. KEARNS. Japan has been a big user of Export-Import Bank credits, but we should show the offset.

Mr. PASSMAN. How about other commodities?

Mr. KEARNS. In the last 2 or 3 years our credits to Japan have been limited almost entirely to these transactions.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES—GROSS AUTHORIZATIONS TO JAPAN—FISCAL YEAR 1971, 1972, AND 1973 THROUGH MAR. 31, 1973

[In millions]

	Fiscal year 1971	Fiscal year 1972	Fiscal year 1973 (through Mar. 31)	Total July 1, 1970 to Mar. 31, 1973
Loans:				
Regular	$119.9	$197.4	$20.6	$337.9
Commodity	75.0	75.0	0	150.0
Subtotal	194.9	272.4	20.6	487.9
Financial guarantee	83.8	109.9	0	193.7
M/T guarantees	14.5	13.2	16.6	44.3
M/T insurance	8.5	3.3	1.0	12.8
S/T insurance (shipments)	23.2	132.9	114.7	270.8
Subtotal	130.0	259.3	132.3	521.6
Total gross authorization to Japan	324.9	531.7	152.9	1,009.5
Memo:				
Regular loan authorizations, as above	119.9	197.4	20.6	337.9
Asset sales to Government of Japan	69.7	159.8	134.1	363.6
Regular loan authorizations, net of offset sales	50.2	37.6	(113.5)	(25.7)

BANK SUPPORT OF EXPORTS TO KOREA

Mr. PASSMAN. Do you have a program in Korea?

Mr. KEARNS. Yes, we do.

Mr. PASSMAN. They have a very sound economy. What has been your experience with them?

Mr. KEARNS. Good. We have $293 million of exposure in Korea now.

Mr. PASSMAN. What does that represent in manufactured goods?

Mr. KEARNS. Practically everything. We did finance one nuclear power plant, but the rest of it has been all kinds of things.

Mr. PASSMAN. Any aircraft?

Mr. KEARNS. Yes, we have a few aircraft with Korean Airlines, yes.

Mr. PASSMAN. Are they up to date with their loans?

Mr. KEARNS. Yes. I don't think we have any delinquencies there at all.

Mr. PASSMAN. It has been outstanding for years.

Mr. KEARNS. We have been doing business there a relatively short time, but our record has been good so far.

GAO REPORT ON BANK'S RELENDING PROGRAM

Mr. PASSMAN. In another GAO report dated January 23, 1973, it was concluded by GAO that the Bank's relending programs could be made more effective in promoting U.S. exports. Some of the observations with regard to the Brazil program follow:

(*a*) Few sales of U.S. products which would not otherwise have been made have occurred under the program.

(*b*) It was felt some of the program objectives were not met, such as assisting small- and medium-sized foreign firms to purchase U.S.

products, introducing U.S. companies and products to the Brazilian market, and so forth.

(c) Many subloan repayment periods exceeded those customary in international trade, thus delaying favorable impact on the U.S. balance of payments and putting off new opportunities to finance U.S. exports.

I note in the report, the Bank felt GAO's recommendations were without merit, but that GAO disagreed. Would you tell the committee why you felt GAO's recommendations were without merit and please also comment on the issues raised in the report.

Mr. KEARNS. Basically, we believed that the GAO recommendations were without merit because the report was so wide of the mark in its analysis of Eximbank's relending program for several reasons. First, the report concerned a program that had been discontinued and was being phased out at the time when the GAO started its study, which they were advised. Second, their effort was predicated on an erroneous assumption that the paramount objective of the phased-out relending program was to bring assistance to small- and medium-sized businesses which, while an important objective in all the Bank's programs including this one, was actually secondary to the prime objective of maximizing U.S. exports and achieving payment for them. And third, the report placed considerable emphasis on the presumption that in evaluating the program Eximbank had developed no absolute formula to measure the additionality of exports which resulted from use of the program, which, as I mentioned earlier today, cannot be proven mathematically in any program. But to draw a general conclusion, as this report seems to have done, that credit does not stimulate purchases is contrary to all business experience.

With respect to the specific issues raised, with your permission, Mr. Chairman, I would like to submit for the record the response to this report which we furnished to the Congress, as required by law.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES

RESPONSE TO GAO REPORT ON RELENDING PROGRAMS

The report concerns a study by the General Accounting Office of an Eximbank program which was being phased out when the study was commenced and the General Accounting Office was so advised at the time it commenced the study.

Basically, the report totally misses the primary objective of the phased-out program. The primary objective was to maximize U.S. exports and to achieve payment for those exports. It was designed to bring necessary financing effectively into the foreign marketplace so that purchasers could more easily buy U.S. equipment and services. It is true that one of the objectives, although a secondary one, of the program was to encourage more purchases by small and medium-sized businesses in a particular country.

It has become apparent to the directors, officers, and senior staff members of Eximbank, as they have traveled throughout the world, that many buyers abroad are inexperienced in financing their purchases in the international financial circles and are unaware that credit for the purchase of U.S. goods and services could be available to them. This is particularly true among the small and medium-sized firms. As a result, the Bank has instituted two new programs called the Cooperative Financing Facility and the Relending Facility.

The letter from Chairman Kearns to Mr. Oye V. Stovall dated August 24, 1972, explains Eximbank's view of the subject report—Appendix II. The GAO response to that letter set forth in Appendix II of the report is not concrete.

It was, of course, with full knowledge of the ineffectiveness of the earlier relending program that the program was phased-out and the new facilities devised in order to allow maximum flexibility in accomplishing our export

objectives. In applying for individual loans for the new facilities, there are several detailed questions which must be answered by the bank with whom Eximbank is dealing. For your information, I am attaching, as Exhibit A and B, copies of those application forms.

Under each of these facilities Eximbank uses indigenous banks in the country of the purchasers as its agents to assist in concluding the sale of U.S. goods and services. It is assured of repayment since it is relying principally on the creditworthiness of the bank with whom it is dealing. Eximbank allows the bank to charge sufficient interest to the buyers abroad in order to allow the bank to make a small profit after covering its operating expenses related to this type of transaction. By extending a line of credit to the foreign bank, transactions can be concluded in an efficient manner. The foreign bank is familiar with the credit standing of buyers in its own locality and is in a position to determine the buyers ability to repay. Also, the buyer often is more comfortable in dealing with its own bank than an entity totally unknown to him.

The primary differences between the Relending Facility and the Cooperative Financing Facility, aside from the fact Eximbank provides no more than half the financed portion under the CFF, is that under the relending facility, as it is presently constituted, individual loans normally are limited to $200,000 or less, the type of products which can be purchased with credit extended under the facility are specifically limited, and the markets served are limited to those in developing countries. Eximbank determines eligibility for products after consultation with the American Embassy in the particular country and the Department of Commerce.

Eximbank believes that precedent established for the new facilities achieves the effectiveness intended for the two programs, realizing that the primary objective of each program is to increase U.S. exports and to achieve payment thereon. When the Relending Facility was first instituted, Eximbank required the relending banks to submit substantial information on the proposed purchaser as indicated in Exhibit C to this letter. However, this requirement was subsequently deleted since it seems superfluous and not directly related to the primary objective of the program.

The Comptroller General recommends that Eximbank consider establishing a relending credit line administered by the Small Business Administration. Over the past 2 years, this Bank has met on several occasions with representatives of the Small Business Administration in an effort to encourage more small businesses in the United States to enter the export field. We intend to continue meeting with the Small Business Administration in order to explore all possibilities of increasing exports.

POSSIBLE EFFECT ON BANK-FINANCED TRANSACTIONS ON U.S. INDUSTRY

Mr. PASSMAN. In an article in the Journal of Commerce on January 8, 1973, it was stated that the National Advisory Council was reviewing whether Eximbank assistance should be provided for multinational projects, which, actually or potentially, compete with U.S. production. It went on to say that NAC had already ruled against Eximbank credits on the sale of U.S. components for the European wide-bodied airbus. The decision was based on the fact that the Government should do nothing to help foreign nations compete against U.S. aircraft manufacturers. Please tell the committee if the Bank is now considering whether a loan being made could result in possible competition with U.S. firms.

Mr. KEARNS. We always take this factor into consideration. Our law requires that we must take into account any possible adverse impact on the U.S. economy. However, we must make this judgment on a case-by-case basis, taking into consideration the effect that the transaction would have on the overall domestic economy, because we must take into consideration the possibility of discrimination against one U.S. industry, the one seeking to export, in favor of another.

EXIMBANK FINANCING OF EXPORTS TO COUNTRIES WITH LARGE FOREIGN EXCHANGE RESERVES

Mr. PASSMAN. In the same article it stated that the National Advisory Council was studying whether Ex-Im should extend export financing on sales to industrial nations with large foreign reserve holdings, such as Japan and Germany. Has the NAC concluded what course of action the Bank should pursue in this matter?

Mr. KEARNS. The NAC has concluded that the Bank should do whatever is necessary to facilitate U.S. export sales and that we should provide the financing where the Bank's support is critical to the consummation of the sale. This, again, must be viewed on a case-by-case basis.

Mr. PASSMAN. In the last year, what sort and in what amounts of export financing has been extended by the Bank to Japan and Germany?

Mr. KEARNS. In fiscal year 1972 Eximbank's direct credit authorizations for Japan totaled $272,378,774 to support export sales of 18 commercial jet aircraft, 2 nuclear powerplants, cotton, and a variety of smaller items under the CFF program. We had only one credit for $3 million to support tobacco exports to Germany.

Mr. PASSMAN. Don't you think these countries should be able to spend their surplus foreign reserve holdings instead of receiving assisted financing?

Mr. KEARNS. First, let me point out again that although some of these governments have surplus foreign exchange holdings, the funds are not necessarily available for use by private buyers in those countries, and this point is frequently overlooked. On those transactions which we believe should be supported by Eximbank we do, of course, always try to get the maximum amount of off-shore financing. In cases where the United States today has virtually no foreign competition, such as the 747 aircraft, a refusal by Eximbank to provide financing to the extent requested may very well effect the ultimate size or timing of the order. With adequate financing available, the foreign buyer may buy more, sooner; without the financing, he may decide to cut back or defer his purchases, or not buy at all.

EXPLANATION OF "AUTHORITY TO SPEND AGENCY DEBT RECEIPTS"

Mr. PASSMAN. Would you please explain the $3,262,550,000 item appearing in the budget for fiscal year 1974 under the title "Budget authority, authority to spend agency debt receipts"?

Mr. KEARNS. "Authority to spend debt receipts" refers to the Bank's ability to fund its programs by borrowing money for this purpose. "Budget authority" for any year represents the authority, becoming available during that year, to incur obligations, and is classified as either definite or indefinite, permanent or current. Eximbank's budget authority is indefinite and permanent. Indefinite authority is not stated as a specific sum when the authority is granted, but is determinable only at some future date. Permanent authority will become available without further action by Congress. Therefore, the figure of $3,262,550,000 represents the Bank's estimate of additional budget authority which would be needed to cover fiscal year 1974 obligations. However,

the exact amount, if any, will not be determinable until the end of fiscal year 1974. 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 1974 Eximbank should have to: First, pay guarantee and insurance claims equal to its 25 percent reserve; second, disburse all of the undisbursed balances of its loan agreements, and third, repurchase all of its loans sold with recourse, the Bank would then need $3,262,550,000 additional funds above the amount it would be able to acquire from authorized Treasury borrowings plus the obligated balances of its authority to spend agency debt receipts.

BANK SUPPORT OF EXPORTS TO COMMUNIST COUNTRIES

Mr. PASSMAN. What Communist countries are presently eligible to utilized Eximbank programs?

Mr. KEARNS. Yugoslavia, Romania, Poland and the U.S.S.R.

Mr. PASSMAN. Please tell the committee the amount of participation in the Bank's programs these countries will engage in in fiscal years 1973 and 1974.

Mr. KEARNS. I can't give you any information on future activities because the Bank, of course, does not program its funds; we respond to applications for support of exports as they are received. However, through March 31 of the current year we have authorized approximately $91.7 million in support of exports to Yugoslavia; $14.5 million for Romania; $22 million for Poland; and $101.2 million for U.S. exports to the Soviet Union. These authorizations will support about $364.8 million in U.S. sales to those four countries.

SUPPORT OF EXPORTS TO THE SOVIET UNION

Mr. PASSMAN. There has been some unfavorable reaction about the Bank extending to Russia export financing. Please tell the committee what export financing has been extended to Russia presently and what would be your argument favoring this assistance?

Mr. KEARNS. To date Eximbank has authorized three credits to support Soviet purchases of U.S. goods. The first, in the amount of $11,671,650, will finance 500 submersible electric pumping units; the second, in the amount of $3,102,912, is for equipment and services for the construction of a cupronickle and stainless steel tableware manufacturing plant; and the third transaction, in the amount of $86,450,000, is for equipment to be used in the construction of the Kama River truck plant.

We believe that there is justification for Eximbank to support these U.S. sales for the same reasons that we support export sales elsewhere. The Soviets have indicated that they want to purchase certain types of industrialized equipment from abroad, and we believe certainly that the U.S. business man should have the opportunity to supply these items on a basis which is competitive with other foreign suppliers. I should point out, further, that like all other export sales, sales to the

Soviet Union provide employment in U.S. industries and benefits for the entire U.S. economy, including increased tax revenues to all levels of the government.

Mr. PASSMAN. What type of export financing is planned for Russia in the future?

Mr. KEARNS. Well, we can't give you any definite figures for future Soviet transactions any more than elsewhere in the world. However, we have had discussions with the Soviets concerning other types of equipment which they may purchase, and, in addition to the three credits which the Bank has already authorized, we also have outstanding preliminary commitments to the Soviets totaling approximately $36 million for potential future sales. Whether or not these PC's will become actual loan applications at all, or to that extent, we don't know.

EXPORTS TO THE PEOPLE'S REPUBLIC OF CHINA

Mr. PASSMAN. Has the Bank had any negotiations with the People's Republic of China concerning export financing?

Mr. KEARNS. No. At the present time we are prohibited by law from assisting any transaction with Communist China.

EFFECT OF BANK ACTIVITIES ON FISCAL YEAR 1972 BALANCE OF TRADE AND BALANCE OF PAYMENTS ACCOUNTS

Mr. PASSMAN. As you know, in 1972 the United States had a large balance-of-trade deficit, and balance-of-payments deficit. Could you tell the committee what effect Eximbank has had on these two measures for the last year?

Mr. KEARNS. Eximbank's fiscal year 1972 operations have supported $9.5 billion of potential U.S. export sales. There is a time lag between authorizations of export assistance and the export itself, as measured by disbursements and shipment. Actual U.S. exports supported during fiscal year 1972, as measured by disbursements and shipments, totaled $3.4 billion. Thus, Eximbank's operations increased U.S. exports and helped to reduce the magnitude of the United States overall trade deficit. Eximbank's operations also contributed an estimated $2.6 billion to the credit side of the U.S. balance of payments during fiscal year 1972, helping to reduce the overall US. balance of payments deficit.

PARTICIPATION FINANCING

Mr. PASSMAN. Is it still the general policy of the Bank to require 50 percent of the money on a loan to come from sources outside the Bank?

Mr. KEARNS. Yes.

Mr. PASSMAN. Has there been any exception to this general policy during the last year?

Mr. KEARNS. Only in a few cases involving engineering and feasibility study loans in which Eximbank lends 85 percent of the contract price, and a cotton credit. The same value of these engineering transactions—normally they are under $500,000—makes it administratively impractical to split the financing between Eximbank and a commercial bank.

PROFIT OF BANK SINCE INCEPTION AND ESTIMATED PROFIT IN FISCAL YEAR 1974

Mr. PASSMAN. What has been the total profit of the Bank since its inception?

Mr. KEARNS. The total profit of Eximbank since its inception has been $2,334.8 million.

Mr. PASSMAN. What will be its profit in fiscal year 1974?

Mr. KEARNS. We estimate that the Bank will have a net income of $144 million in fiscal year 1974 before payment of any claims.

DIVIDENDS PAID TO U.S. TREASURY

Mr. PASSMAN. How much in dividends has the Bank paid into the Treasury since it began operation?

Mr. KEARNS. The Bank has paid $805.9 million in dividends to the U.S. Treasury since 1934.

Mr. PASSMAN. How much do you pay into the Treasury each year?

Mr. KEARNS. Each year for the past several years the Bank has paid a $50 million dividend to the Treasury.

TOTAL EXPORT SALES SUPPORTED BY BANK SINCE INCEPTION

Mr. PASSMAN. Please estimate the total exports made possible by Eximbank since operations begun.

Mr. KEARNS. It is difficult to give precise figures on this, since this data has only been incorporated into the Bank's data management system since 1970. However, we estimate that the Bank's authorizations have supported $61 billion of potential U.S. export sales, since its inception.

U.S. JOBS CREATED BY EXPORTS SUPPORTED BY BANK

Mr. PASSMAN. How many jobs do you estimate have been created by the operations of the Bank?

Mr. KEARNS. Based on the Department of Labor estimates that each billion dollars of American exports creates the equivalent of about 70,000 full-time jobs for American workers, Eximbank's activities have created or will create over 4.2 million jobs in the U.S. economy.

PROFITS TO U.S. BUSINESS FROM BANK-SUPPORTED EXPORT SALES

Mr. PASSMAN. Could you estimate the total amount of profits earned by private enterprise as a result of the Bank's operations?

Mr. KEARNS. Based on Treasury Department estimates of before-tax profits on export sales, we estimate that Exim-assisted export sales have or will generate about $4.5 billion of profits for U.S. businesses, both large and small.

FEDERAL TAX REVENUES FROM BANK-SUPPORTED EXPORT SALES

Mr. PASSMAN. How much in tax and other revenue do you estimate the U.S. Government has received as a result of these profits?

Mr. KEARNS. We estimate, and this, as you know, can only be a rough estimate, that these export sales produced about $15.2 billion of corporate and personal income taxes for the Federal Government.

ESTIMATED EXPORT SALES FROM FISCAL YEAR 1974 BANK AUTHORIZATIONS

Mr. PASSMAN. What volume of exports do you estimate will result in fiscal year 1974 from the programs provided by the Bank?

Mr. KEARNS. We estimate that Eximbank authorizations in fiscal year 1974 will support $12 billion of U.S. export sales.

BIOGRAPHIES OF NEW ADVISORY COMMITTEE MEMBERS

Mr. PASSMAN. You have had some changes in the membership of the Advisory Committee since last year. Would you identify the new members and include their biographies in the record.

Mr. KEARNS. Yes, sir.

[The information follows:]

EXPORT-IMPORT BANK ADVISORY COMMITTEE MEMBERS APPOINTED SEPTEMBER 1, 1972

ERNEST C. ARBUCKLE

Ernest C. Arbuckle has been chairman of Wells Fargo Bank since June 1968. Born September 5, 1912, in Lee, N.H., he received an A.B. from Stanford University in 1933, attended Stanford Law School in 1934, and received an M.B.A. from Stanford University Graduate School of Business in 1936. From 1937 to 1941 and from 1945 to 1946, Mr. Arbuckle was industry relations and organization analyst with Standard Oil Co. of California. He served in the U.S. Navy during World War II and was awarded the Silver Star for gallantry in action in 1945. He was with Golden State Co., Ltd., from 1946 to 1950, as director of purchasing, traffic, and marketing, among other general management assignments. From 1950 to 1958, he was with W .R. Grace & Co., serving as executive vice president of Pacific Coast Division; executive vice president of Foster & Kleiser Division; and vice president of Grace & Co.-Central America. Mr. Arbuckle was dean of the Graduate School of Business, Stanford University, from 1958 until becoming chairman of Wells Fargo Bank in 1968. He is a Director of Castle & Cooke, Inc., Honolulu; Hewlett-Packard Co., Palo Alto; Owens-Illinois, Inc., Toledo; Safeway Stores, Inc., Oakland; and Utah International, Inc., San Francisco. He is active in the fields of education, government, and civic affairs. He is a trustee of Stanford University; director, National Center for Voluntary Action; and director, San Francisco Chamber of Commerce.

JAMES R. GREENE

James R. Greene is a senior vice president in the International Division of Manufactures Hanover Trust. He is in charge of the bank's business in Latin America, Spain, and Portugal. He wa snamed an assistant manager in 1955, an assistant vice president in 1956, a vice president in 1957, and a senior vice president in 1963. Before joining the then Hanover Bank in May 1955, Mr. Greene had been second secretary in the Foreign Service of the United States. Prior to that, he taught economics at Stanford University for 2 years. During World War II, he served as a lieutenant (j.g.) with the U.S. Naval Reserve in the Pacific Theater. He is a director of Corporacion Financiera Columbiana, Bogota, Colombia; Inversiones Abancay S.A., Lima, Peru; and the Adela Investment Company, S.A. He has been decorated with the Gran Cruz de Bogota by the Government of Colombia. Mr. Greene served until April 1973 as president of the Bankers' Association for Foreign Trade. He also is a member of the board of trustees of Brookdale Community College (New Jersey) and president of the Rumson-Fair Haven Regional High School Board of Education (Rumson, N.J.). Mr. Greene was born in Chicago in 1921. He received his A.B. degree from Occidental Col-

lege, Los Angeles, where he was elected to Phi Beta Kappa, and his M.B.A. degree from Stanford where he completed residence and academic requirements for his Ph. D. in economics.

MURRAY W. MILLER

Murray W. Miller was appointed general secretary-treasurer of the 2-million-member International Brotherhood of Teamsters in March of 1972, having previously served as director of the Southern Conference of Teamsters in Dallas, Tex., since 1951. Mr. Miller, a native of Columbus, Ind., has been prominent in Teamster affairs for the past 27 years. His union career began in 1934 when he organized a machinists' union in Columbus. He then became an organizer for the Carpenters' Union in Mobile, Ala. Mr. Miller joined the merchant marine in 1941, and attended St. Petersburg Merchant Marine Academy. On returning to Indiana, he organized the bakery industry, and was successful in bringing a substantial number of bakery drivers into the Teamsters Union, while driving a bakery truck himself. He then served as an officer for Teamster local unions in Muncie, Ind., and Houston, Tex., and in 1946, became a general organizer for the International Brotherhood of Teamsters, moving to Dallas, where he became the principal officer of Teamsters local 745. He was elected a vice president of the Teamsters General Executive Board at the organization's 1957 convention.

ALLEN P. STULTS

Allen P. Stults is chairman and chief executive officer of American National Bank & Trust Co. of Chicago and also chairman of its parent holding company, American National Corp. He was elected to the bank post in 1968 and the holding company position in 1969. He is a native Chicagoan, born June 13, 1913. Mr. Stults launched his banking career at what may have been history's most inauspicious time—the banking moratorium of 1933. Forced to leave college at age 19 because of financial straits, he found a job as messenger for the Federal Reserve Bank of Chicago. In December of that same year American National Bank opened for business and Mr. Stults was one of the original employees. He worked at virtually every beginner's job the first few years and resumed his college career at nights. Some 10 years later he received his bachelor's degree from Northwestern University's School of Commerce. In 1945, he was awarded a certificate from the Stonier Graduate School of Banking, Rutgers University. He advanced at American National Bank from an officer in the commercial lending division to Assistant Vice President, to Vice President, to Executive Vice President, election to the board of directors, to the presidency, and finally to the position of chairman in 1968. Mr. Stults' numerous business and civic organization responsibilities include: president of the American Bankers Association (to October 1972); appointment by the Nixon administration to the Citizens Committee for Government Reorganization and the National Export Expansion Council; trustee of the Foundation for Full Service Banks; trustee of Alice Lloyd College, Kentucky; past treasurer and current director of the Association of Reserve City Bankers; past president of the Illinois Bankers Association; head of the Committee on Urban Progress which conducted a major study of Chicago; and was treasurer of the Illinois Commission on Urban Area Government.

DEFAULTS AND DELINQUENCIES

Mr. PASSMAN. Have you had any defaults or delinquencies this past year?

Mr. KEARNS. No loans have been written off in fiscal year 1973. Currently, we have $196 million of loans which have installments delinquent 30 days or more. Most of these are in Chile, Cuba, and mainland China.

Mr. PASSMAN. What has been your bad debt experience since inception?

Mr. KEARNS. As I mentioned earlier, since inception the bank has written off only a net of $3.7 million of loans and about $16.6 million

from guarantees and insurance. The loans written off are only about 2 one-hundredths of 1 percent of total disbursements over this period.

RESCHEDULED LOANS

Mr. PASSMAN. Has it been necessary to roll over or reschedule any loans this past year?

Mr. KEARNS. Yes, a few. Through March 31 of fiscal year 1973, Exim has rescheduled $1.2 million involving 14 loans.

EXPORT EXPANSION PROGRAMS

Mr. PASSMAN. Would you list for the record the 20 export expansion programs with a brief description of each?

Mr. KEARNS. We will be happy to provide a brief summary of our major programs for the record.

[The information follows:]

EXIMBANK EXPORT EXPANSION PROGRAMS

COOPERATIVE FINANCING FACILITY

With this Cooperative Financing Facility (CFF) the Export-Import Bank of the United States helps make credit available to small- and medium-size purchasers of U.S. equipment and related services through banks in their own countries.

The CFF concept is simple: Eximbank arranges the cooperation of financial institutions (CI's) abroad to extend loans at their own risk to purchasers of U.S. exports. Eximbank in turn lends these CI's half the funds at a low rate of interest (currently 6 percent per annum). The CI's provide the other half from their own resources.

If a CI wishes to borrow its half of the financing Eximbank can assist by guaranteeing repayment to another lender of these funds.

The CFF accomplishes the following:

(1) It brings Eximbank financing to the doorsteps of small- and medium-size enterprises that might not otherwise be able to purchase U.S. goods and services. All a buyer need do is call on a CI in his own area. The CI's familiarity with the customer's credit standing and local market conditions enables it to reach a decision quickly on the loan request.

(2) The CFF enables a CI to broaden its lending capacity, increase its resources, develop new relations with existing customers, and attract new ones.

(3) It helps U.S. suppliers expand their exports and services to enterprises which lack experience in financing overseas purchases.

DIRECT LOANS

Direct Loans are dollar credits extended by Eximbank directly to borrowers outside of the United States for purchases of U.S. goods and services. Proceeds of the loans are used to pay U.S. suppliers of the goods and services. These loans plus interest must be repaid in dollars by the borrowers.

The purposes of the direct lending program are:

(1) To supplement private sources of financing where the private financial source is unwilling or unable to assume the political and commercial risks under current conditions;

(2) To extend credit on terms longer than those private lenders can provide; and

(3) To enable U.S. suppliers to provide terms on major projects equal or better than those offered by government-sponsored export financing institutions in other exporting countries.

Currently, the rate of interest charged by Eximbank on its direct loans to purchasers of exports of U.S. goods and services is 6 percent per annum. Normally, repayment is made in semiannual installments beginning 6 months after delivery of the equipment purchased or after completion of the project financed. Because 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 per annum of the undisbursed balance of the authorized loan.

Applications for direct loans must be made by the prospective borrower. The application, in the form of a letter, must include or be supplemented by information sufficient to enable Eximbank to appraise fully the technical, economic, and financial aspects of the transaction.

PARTICIPATION FINANCING

Eximbank has adopted a policy of requiring private financial participation in any transaction seeking Eximbank direct lending.

This policy has the threefold purpose of:

(1) Assuring that Eximbank's financial resources supplement, rather than compete with, private sources of export financing;

(2) Extending the usefulness of Eximbank's cash resources to the largest possible number of purchases and projects; and

(3) Assurance that private financial institutions will continue to provide export credits in the international trade arena.

Participation financing, therefore, is the combining of Eximbank's direct lending with loans provided by private sources of funds. If required by the private lender, Eximbank may extend its financial guarantee to assure repayment of that portion of the total financing.

FINANCIAL GUARANTEES

Eximbank has two financial guarantee programs under which it can assure the repayment of credits extended by private lenders to purchasers outside of the United States of U.S. goods and services. This guarantee is backed by the full faith and credit of the United States of America.

One program is available to U.S. financial institutions. The other is available to non-U.S. financial institutions.

The objective of both programs is to encourage wider, more frequent, and larger scale participation by private sources of funds in the financing of U.S. exports.

The financial guarantee programs can serve importantly as a substitute for direct lending by Eximbank. These programs also may be combined effectively with Eximbank direct lending, when Eximbank direct credit participation is necessary to supplement the private sources of funds in a particular transaction. Eximbank charges a guarantee fee of one-half percent per annum on the outstanding balance of the guaranteed loan.

An Eximbank financial guarantee not only assures availability of private funds but usually substantially reduces interest cost.

PRELIMINARY COMMITMENTS

The Export-Import Bank of the United States is prepared to provide preliminary commitments outlining the amount, terms, and conditions of the financial assistance it will extend to purchasers of U.S. exports of goods and services.

Buyers, suppliers, and financial institutions are entitled to use the Eximbank preliminary commitment procedure:

(1) If it is useful or necessary to know the amount, terms, and conditions of financing that will be available if goods and services are supplied from the United States;

(2) If the general description of the project or purchase is known;

(3) If the general estimates of cost, financing, and time requirements are known.

There is no cost or obligation to the applicant.

The commitment may be used in full, in part, or terminated and where appropriate changes may be negotiated by the applicant and Eximbank. It is assurance of financing backed up fully by the reputation and resources of Eximbank.

The program can be used advantageously by U.S. exporters in their marketing efforts.

LOCAL COST FINANCING

Eximbank is prepared to assist exporters in obtaining local cost financing when it has been clearly demonstrated as necessary to complete sales abroad of U.S. goods and services.

Increasingly, U.S. suppliers are being required to meet foreign competition by providing financing for a portion of the local costs as well as the dollar costs associated with major projects outside the United States.

Local costs are those expenses incurred by the buyer for the purchase in his own country of goods and services associated with the U.S. transaction. They may include expenses for engineering services, public utility connections, locally available construction materials, labor, equipment installation, employee housing, and similar items of host country origin.

MEDIUM-TERM DISCOUNT PROGRAM

Eximbank will make advance commitments to make discount loans for up to 100 percent of the eligible export debt obligations arising from current U.S. exports. Eximbank will also give advance commitments to purchase on a case-by-case basis eligible export debt obligations, satisfactory to Eximbank, with full and unconditional recourse on the commercial bank. Eximbank will consider applications from commercial banks as well as Edge Act and "Agreement" corporations operating under sections 25 and 25(a) of the Federal Reserve Act (hereinafter called bank(s)) for loans to assist the banks in financing current exports of U.S. products and services from the United States.

SHORT-TERM DISCOUNT PROGRAM

Eximbank's short-term discount program was established to assist in financing those export sales which require repayment terms of less than 1 year. As with all other programs of Eximbank, this program must supplement and not compete with private sources of financing. Eximbank urges exporters and private banks to continue to use all normal sources of funding of these export sales and urges the private banks to use this program only when other sources of funding are not satisfactorily available. Eximbank will make advance commitments for discount loans of up to 100 percent of the principal amount or discounted value of eligible export debt obligations arising from the financing of current U.S. exports of goods and services. Eximbank will consider applications from commercial banks, as well as Edge Act and "Agreement" corporations operating under sections 25 and 25(a) of the Federal Reserve Act (hereinafter called bank(s)).

THE RELENDING FACILITY

The Export-Import Bank of the United States has designed a relending facility to encourage additional export sales of U.S. goods and services in selected countries. A relending facility is extended by Eximbank directly to a non-U.S. financial institution to use for export loans to small and medium sized private buyers of U.S. goods and services. Through the extension of relending facilities, Eximbank endeavors:

(1) To establish a program that will assist medium and smaller size private businesses and industries to purchase U.S. products, services, and technology at reasonable credit costs, thereby helping these enterprises acquire efficient equipment and services of U.S. origin;

(2) To support the introduction or expansion of sales of certain categories of U.S. products selected on the basis of economic studies which identify potential markets not now satisfactorily served from the United States;

(3) To provide a flexible, responsive facility to assist in concluding smaller transactions that are not normally appropriate in other Eximbank operations, and not available through U.S. commercial banks; and

(4) To expand close working relationships with financial institutions outside the United States, on the basis of cooperation and mutual benefit.

ENGINEERING, PLANNING, AND FEASIBILITY STUDY

The Export-Import Bank of the United States will finance the costs involved in the preparation by U.S. firms of engineering, planning, and feasibility studies for their non-U.S. clients on large capital projects.

Eximbank recognizes that historically, the export sale of goods and services generally follows the nationality of the feasibility study contractor. By assisting U.S. engineering firms to obtain studies sponsored by clients outside the United States, it is anticipated that an increased number of design and construction contracts for large projects will be signed with U.S. firms.

The financial assistance which the Bank offers can be directed to either the contractor or the client.

If the contractor funds his study, Eximbank will provide a commercial bank exporter guarantee enabling the contractor to sell without recourse his debt obligation to a commercial bank. If Eximbank's assistance is to be given the client, it would be in the form of a financial guarantee of a loan extended by either a U.S. or non-U.S. commercial bank, most often in connection with a direct loan participated in by Eximbank.

COMMERCIAL BANK EXPORTER GUARANTEES

The Export-Import Bank of the United States will guarantee repayment of medium-term (181 days to 5 years) export debt obligations acquired by U.S. banking institutions from U.S. exporters.

Any U.S. commercial bank or Edge Act corporation is eligible for guarantees under the commercial bank exporter guarantee program.

The purpose of this program is to encourage and assist greater participation by banks in supporting U.S. exporters who must provide deferred credit terms on their sales.

EXPORT FINANCE COUNSELING SERVICE

Export-Import Bank of the United States provides a counseling service for exporters, banks, and financial institutions to help solve some of their problems in obtaining financing for transactions involving the sale of U.S. goods and services in other countries. The service, among other things, will provide:

(1) Information on the availability of financing services and resources, whether within the United States or elsewhere; and

(2) Information on each of the pertinent Eximbank programs which could be of assistance to exporters who find it necessary to offer deferred payment terms on their export sales to finance such sales.

ORIENTATION PROGRAM FOR BUSINESS AND INDUSTRY

Export-Import Bank of the United States has designed a program to familiarize representatives of various U.S. businesses and industries engaged in export trade with Eximbank's facilities and methods of operation.

A 1-day seminar, tailored for the company's needs, can be arranged for them on any Tuesday or Friday with advance notice of 2 weeks.

Those programs most appropriate to the specific needs of the individual companies will be featured in the discussions arranged for the trainees.

EQUIPMENT POLITICAL RISK GUARANTEE

The Export-Import Bank of the United States will provide political risk guarantee coverage on U.S. equipment used by U.S. contractors in their performance on contracts abroad.

U.S. contractors, in the course of their work outside of the United States, must frequently use their own or leased equipment. In many cases, the value of the equipment runs into the hundreds of thousands of U.S. dollars. In order to promote the export of U.S. goods and services, and to minimize the risk of equipment loss to the U.S. contractors while performing in connection with foreign projects that are economically and financially sound, the Eximbank has introduced a guarantee program for political risk of equipment.

GUARANTEE OF LEASE PAYMENTS

The Export-Import Bank of the United States is prepared to extend to either a U.S. or a non-U.S. lessor a guarantee of payment by a leasee for the lease of U.S. equipment outside of the United States on either a nonpayment or full payout basis. The lease transaction must result in an export of the U.S. equipment.

EXIMBANK EXPERIENCE SHARING AND ORIENTATION PROGRAM

Export-Import Bank of the United States has designed a program to familiarize represenatives of Government departments, financial institutions, businesses, and industries engaged in export trade with Eximbank's facilities and methods of operation.

An invitation to nominate trainees for this orientation program is extended from time to time by officers of Eximbank. A minimum of 4 and a maximum of 10 trainees is accepted for 2- or 3-week saturation sessions in all phases of the Eximbank programs.

FOREIGN CREDIT INSURANCE ASSOCIATION (FCIA)

FCIA, a group of some 50 of the principal U.S. maritime, casualty, and property insurance companies, in cooperation with Eximbank, has offered export credit insurance to U.S. exporters since 1962. To facilitate the sale of U.S. goods and services to other countries, FCIA insurance provides a broad-based protection against both commercial and political risks, which could result in the default of payment from a foreign buyer.

To meet the needs of all exporters, large and small, several types of policies are now being offered by FCIA:

(1) The master policy provides blanket coverage (normally 90 percent both for political and commercial credit risks for all the exporter's eligible short term credit sales, as well as medium-term credit sales;

(2) A special policy has also been developed for small businesses which are either new to export trade or which have had a very modest sales volume in the past;

(3) The short-term policy provides the exporter with blanket coverage for all of its foreign buyers who purchase consumer items, parts, and accessories; financing under this program are grains (such as wheat and feed grains), cotton, tobacco, vegetable oils, and breeding cattle. Commodities eligible for financing are announced each month by the CCC; additions and/or deletions to the list of commodities are determined administratively.

COMMERCIAL BANK EXPORT SYMPOSIA

Officials of the Export-Import Bank of the United States will participate in export symposia designed to assist commercial banks in explaining export financing techniques to their business customers.

Export symposia are meetings arranged by commercial banks in their own communities. A commercial bank sponsoring an export symposium extends invitations to its business account customers to send representatives to the meeting. A commercial bank official chairs the meeting, in which Eximbank officials explain the various ways in which financing of U.S. exports can be arranged, with emphasis upon the part that private financial institutions will play, as well as the types and extent of Eximbank export financing programs.

These meetings have proved to be of considerable benefit to the commercial bankers and their business customers by providing full, up-to-date information on Eximbank activities.

CREDIT INFORMATION SERVICE FOR U.S. COMMERCIAL BANKERS

The Export-Import Bank of the United States will make available to commercial bankers credit information or financial information on a specific country or individual company abroad.

As a result of its long experience in lending in countries outside the United States and its operation of guarantee and insurance programs covering supplier credits in those countries, Eximbank has accumulated extensive records of payment experience on countries and buyers, as well as credit and financial information on a large number of purchasers of U.S. products and services. Commercial banks may have the benefit of this information and experience by making inquiry of Eximbank on transactions proposed to them for financing.

In keeping with the banker-client relationship, Eximbank will not divulge confidential financial data on buyers in other countries, nor will it disclose classified information, or information received in confidence regarding particular credits or conditions in other countries. However, the experience as to repayment records of buyers, and other governments in providing dollar exchange for debt servicing, can have a definite bearing on a U.S. bank's decision to finance certain export transactions.

PROFESSIONAL TRAINING IN INTERNATIONAL FINANCE FOR U.S. COMMERCIAL BANKERS

The Export-Import Bank of the United States, to assist commercial banks in the United States in the training of their personnel in international finance,

offers a 9-month program of professional training for representatives of commercial banks, in export trade financing.

Trainees work at Eximbank in Washington as employees of the Federal Government for a minimum of 9 months. Therefore, the selection of the candidate by the commercial bank is tantamount to the release of the employee for that period of time.

The benefits to be gained by U.S. banks and their personnel from such on-the-job education are numerous. In addition to such excellent experience as the program will provide for them, their observations as to how Eximbank might supplement their own bank's pursuit of export financing opportunities would be considered and applied where possible with mutually beneficial results.

"EMERGENCY CREDIT AUTHORIZATIONS" REQUEST

Mr. PASSMAN. On page "e" of the justifications under the regular loan program you indicate a $50 million contingency will be maintained for emergency credit authorizations. Would you please tell the committee what sort of emergency authorizations you have in mind?

Mr. KEARNS. The category "emergency credit authorizations" refers to loans which are authorized to assist a country which is encountering temporary balance-of-payments difficulties in order to insure an uninterrupted flow of trade between the United States and that country. Since it is impossible to predict whether or not international economic conditions will require an emergency credit authorization for some country, this item is a contingency item. No "emergency" credits have been authorized since fiscal year 1969, even though each year's budget has provided a contingency for this purpose.

NEW PROGRAMS

Mr. PASSMAN. Would you please tell the committee if any new programs have been started by the Bank this past year?

Mr. KEARNS. We have not adopted any new programs since we appeared here last year, but we, of course, are continually reviewing and possibly revising our existing programs to insure that they remain responsive to U.S. exporters needs. For example, within the last year we have revised our commercial bank guarantee program and, as I mentioned earlier, have made some changes in our cooperative financing and relending programs.

CRITERIA UNDER DISCOUNT LOAN PROGRAM

Mr. PASSMAN. Under the discount program you state that it does not provide a profit incentive for the commercial banks to use Eximbank funds. How are you assured this profit incentive is not provided?

Mr. KEARNS. The maximum differential between the interest yield to a bank on an export debt obligation and the interest on a loan from Eximbank is 1 percent per annum. It may even be less than 1 percent if the bank requests a loan more than 90 days after it purchases the export debt obligation. In that case the interest rate on Eximbank's discount loan is the higher of (a) 1 percent less than the interest yield on the export debt obligation, or (b) Eximbank's borrowing rate in the private market for comparable maturities rounded to the next higher ¼ percent. We believe a 1 percent spread is about the minimum which will encourage banks to seek export business actively.

Mr. PASSMAN. You indicate on page "g" that the commercial bank must certify that it is not prepared to make the export loan unless

Eximbank will authorize an advance commitment to make a discount loan. How is Eximbank assured that this certification made by the commercial bank is proper and thereby avoids supplanting private capital?

Mr. KEARNS. The commercial bank's certification to Eximbank that it will not commit to finance a particular export transaction without Eximbank's discount loan commitment is subject to 18 U.S.C. 1001 which provides for a $10,000 fine and/or 5 years imprisonment for anyone who makes false or fraudulent statements to an agency of the United States. We know from our daily dealings with the commercial banks that such certifications are taken seriously. We also believe that the banks normally prefer doing business at a spread greater than 1 percent and would not use the discount program unless they needed assurance of liquidity.

BANK'S TREASURY BORROWINGS

Mr. PASSMAN. How much is the Bank authorized to borrow from the U.S. Treasury?

Mr. KEARNS. The Bank's basic enabling legislation authorizes it to have up to $6 billion outstanding at any one time in borrowings from the Treasury.

Mr. PASSMAN. How much has the Bank borrowed from the U.S. Treasury as of the present time?

Mr. KEARNS. As of April 30, 1973, the Bank's outstanding borrowings from the U.S. Treasury were $1,881.1 million.

Mr. PASSMAN. Isn't Treasury borrowing cheaper than other borrowing.

Mr. KEARNS. It depends on market conditions. Current borrowings carry the market rate of interest which Treasury pays on its own bills, which this week is 6.74 percent.

OTHER SOURCES OF FUNDS

Mr. PASSMAN. Besides Treasury borrowings, what are the other sources of funds available to the Bank?

Mr. KEARNS. The Bank has the authority, and the demonstrated ability, to borrow in the private money markets. And, of course, the Bank has funds generated from its operations, such as repayments of principal on loans, interest, commitment fees, and guarantee and insurance fees.

SOURCES OF BANK'S PROFITS

Mr. PASSMAN. What are the main sources of profit to the Bank?

Mr. KEARNS. The major sources of profit are the Bank's $1.4 billion of retained earnings, and the $1 billion of capital stock. Small amounts are made from the Bank's borrowings due to outstanding amounts borrowed in the past at rates lower than today's interest rates, but as rates increase, new borrowings will raise the Bank's average interest expense rate and the profit from this source will decrease.

LOAN TERMS

Mr. PASSMAN. What are the terms of the loans handled under the regular loan program?

Mr. KEARNS. The terms vary depending on the nature of the product or project to be financed, the amount, and whether there is publicly supported foreign competition. The term is set to allow enough time for the product or the project to generate sufficient cash flow to repay the indebtedness. As I said earlier, our shortest term under this program would be 1 year, while the longest, for nuclear power credits, is 20 years, including a 15-year repayment term following a grace period of approximately 5 years to allow for completion of construction of the facility.

EXPORT EXPANSION FACILITY

Mr. PASSMAN. Under the export expansion facility where the criteria for eligibility are not as strict as they are for the normal operations, what has been your repayment experience thus far?

Mr. KEARNS. Excellent. No loans have been written off to date, and through April of this year net claims paid for guarantees and insurance have amounted to just over $3 million.

Mr. PASSMAN. What is the limitation for this program and how much do you presently have allocated to the program?

Mr. KEARNS. By law we may utilize up to $500 million of our total commitment authority for this program. At March 31, 1973, charges against this limitation amounted to $435.8 million.

MILITARY CREDITS

Mr. PASSMAN. What countries have you extended military credits to this past year and in what amounts?

Mr. KEARNS. To date in fiscal year 1973 the Bank has made only one military loan. That was a $100 million credit to Iran.

Mr. PASSMAN. What was this military credit to be used for?

Mr. KEARNS. This credit is to be used mainly to procure aircraft, missiles, vehicles, and spare parts.

Mr. PASSMAN. Eximbank is not allowed to extend credits for military purposes to underdeveloped countries, is that correct?

Mr. KEARNS. That is correct.

Mr. PASSMAN. Are all military credit arrangements approved and coordinated through the Defense Department?

Mr. KEARNS. Yes, they are.

CHILE

Mr. PASSMAN. Has Eximbank entered into any agreements with Chile this past year?

Mr. KEARNS. No.

Mr. PASSMAN. Does the Bank have any negotiations with Chile underway?

Mr. KEARNS. The Bank has negotiated with Chilean Government representatives as part of the overall renegotiation of the debt owed by Chile to the United States Government under the April 1972 Paris agreement. Some technical issues remain unresolved between the Bank and the Government of Chile and a rescheduling agreement in principal has yet to be concluded. Further talks await the outcome of overall bilateral negotiations between the United States and the Chilean Governments.

EFFECT OF DOLLAR DEVALUATION ON BANK OPERATIONS

Mr. PASSMAN. Has the recent dollar devaluation had any effect on your operations?

Mr. KEARNS. The purpose of the recent dollar devaluation is to stimulate U.S. exports. Since we are witnessing the positive results of this stimulation, there will be a feedback effect upon Eximbank as increased exports will lead to increased demands for financing.

INCREASE REQUESTED FOR EQUIPMENT AND SERVICES AUTHORIZATIONS IN FISCAL YEAR 1974

Mr. PASSMAN. You reflect a large increase in your "equipment and services" authorizations for fiscal year 1974. Would you tell the committee the reason for this large increase?

Mr. KEARNS. The increase occurs for several reasons. As U.S. exporters become more competitive it will result in an increased level of Eximbank authorizations as more opportunities become available to capture export sales with Eximbank assistance. Also, natural resource development projects, such as LNG, for which Eximbank's assistance is needed, will require large amounts of financing. These authorizations are part of the "equipment and services" category.

PROPOSED INCREASE IN BANK'S COMMITMENT AUTHORITY

Mr. PASSMAN. I note that you plan to ask for an increase in your statutory limit of $10 billion in fiscal 1974. Do you think that the Eximbank will continue to expand its operations or will a maximum be reached at some point?

Mr. KEARNS. One cannot pinpoint an authorization maximum. Eximbank responds to financing requests, as U.S. exports grow so should Eximbank authorizations. If exports cease to grow, Eximbank authorizations likely would fall off some.

PAY INCREASE COSTS

Mr. PASSMAN. On page 6, you indicate the fiscal year 1973 and fiscal year 1974 administrative expenses do not include the recent pay increase. Will you need an increase in your limitation for these 2 years to handle the increase?

Mr. KEARNS. Due in part to the freeze in hiring for several months this year, we believe that we will be able to handle the pay increase in fiscal year 1973 without an increase in our administrative expense limitation. However, we may have to request an increase in the fiscal year 1974 administrative expense limitation for the January 1973 pay increase.

ENTERTAINMENT ALLOWANCE REQUEST

Mr. PASSMAN. Could you please tell the committee what you are requesting for entertainment allowance?

Mr. KEARNS. We are requesting $18,000 in fiscal year 1974, the same amount as in fiscal year 1973.

EXPLANATION OF REIMBURSABLE COSTS

Mr. PASSMAN. Would you please explain the "reimbursable detail" item you list on page 6?

Mr. KEARNS. This item represents costs paid by other agencies on behalf of Eximbank for which the Bank reimburses those agencies. The main items are certain costs in connection with Exim's Far East and European representatives for which we reimburse the State Department.

EMPLOYMENT LEVELS FOR FISCAL YEARS 1973 AND 1974

Mr. PASSMAN. What is the total employee level estimated for fiscal year 1974, and how does this compare to fiscal year 1973?

Mr. KEARNS. The Bank is currently limited by the OMB to 400 on board at June 30, 1974, which is the same level as we are authorized for June 30, 1973. The average number of employees on board during fiscal year 1974 is expected to increase from 393 in fiscal year 1973 to 398 in fiscal year 1974. This increase in the average results from the fact that the Bank began fiscal year 1973 with 380 on board, which was our limit for fiscal year 1972, and will build up to 400 by the end of fiscal year 1973, thus beginning fiscal year 1974 with a greater number of people.

Mr. PASSMAN. Mr. Long was unable to be here today, but he asked me to submit the following questions to you for reply.

[The questions and answers follow:]

SUPPORT TO U.S. BALANCE OF PAYMENTS FROM BANK OPERATIONS

Mr. LONG. Mr. Kearns, on page 4 of your statement, you say that in fiscal year 1972, the Eximbank's "operations contributed $3 billion to the credit side of the U.S. balance of payments." What evidence do you have that the export sales making up this $3 billion total would not have been made without Eximbank financing?

Mr. KEARNS. First, our basic law, the Export-Import Bank Act, sets forth the purpose of the Bank as "to aid in financing and to facilitate" U.S. export sales. It also establishes as U.S. Government policy an expansion of U.S. exports in order to increase U.S. employment, income, and development of this country's productive resources, and, further, directs Eximbank in this connection to provide export financing support to U.S. exporters which is competitive with government-supported export financing available to their principal foreign competitors.

Now that same Act, however, also requires that in accomplishing this purpose, the Bank should supplement and encourage and not compete with private capital. Therefore, every transaction which comes into Eximbank is carefully scrutinized, first by our staff, and then by the Board of Directors in an effort to determine whether Eximbank support is necessary for the transaction to go forward. In those cases where it is clear to us that the sale has already been made without acceptable financing as a condition, we, of course, won't participate. However, in most cases, this decision becomes a matter of judgment, because there is no absolute way, or mathematical formula to use, to know if we don't participate, the whole sale or perhaps only part of it—or possibly none of it—will or will not be consummated without us. Although we always try to get maximum private source financing, either from the United States or abroad, in all transactions in which we participate, our main objective is to help the U.S. seller get the business. You only get a positive impact on the U.S. trade balance, and ultimately on this country's balance-of-payments account, if the export sale is actually made. And the larger the sale—including the potential it might create for follow-on orders—the greater the benefit to all sectors of our country's economy and to our international accounts.

BANK RESPONSE TO GAO CRITICISM OF CERTAIN JAPANESE CREDITS

Mr. LONG. A GAO report of February 12, 1973, discusses a number of Eximbank loans to Japan and concluded that "Eximbank financing seemed unnecessary for four loans totaling $10.1 million." [GAO report, p. 18.] What is your response to this conclusion?

Mr. KEARNS. We reviewed very carefully, again, the four specific loans cited by the GAO and we continue to believe that Eximbank participation in the transactions was appropriate.

In this connection, I would like to point out, as we did to the GAO, that their review of Eximbank's export loans to Japan, which was restricted to the 3 fiscal years 1969–71, completely ignored the fact that most of this period was characterized by credit scarcity, as evidenced by the movement of U.S. prime rates of interest which rose steadily, and occasionally sharply, during the period. During periods of credit scarcity, commercial banks tend not to finance exports while being faced with what they consider to be more pressing domestic capital needs. So to argue, as the GAO did in this instance, that commercial bank financing is available for exports and at the same time to ignore the impact of tight money on such availability is neither logical nor helpful.

Moreover, on the basis of a case study in only one country—Japan—the GAO has generalized its criticism to include Eximbank's entire capital loan program, which is certainly disconcerting, to say the least. To evidence the narrowness of GAO's analysis, GAO reviewed a total of $387 million in Eximbank loans to Japan in that period, which not so incidentally supported $893 million in U.S. export sales. During this same period, however, Eximbank authorized a total of $4.574 billion in loans to as many as 64 different countries. Thus, the financing of the four loans which GAO concluded "seemed unnecessary" constituted but 2.6 percent of the $387 million loaned to Japanese purchasers and only .0022 percent of all Eximbank loans during the period.

BANK'S BORROWING AND LENDING RATES

Mr. LONG. In instances in which Eximbank financing—including private funds at market rates of interest—of export transactions offers interest rates lower than the market rate of interest, does the Eximbank calculate the grant element in its loans?

If not, why not? If so, for what loans have you calculated the grant element and what was the total transfer of real income in each case?

Mr. KEARNS. First, let me say again that we do not believe that there is a "grant element" in any of Eximbank's operations. We operate as a bank, and as such we must take into account the total mix of financing, both borrowing and lending, in responding to established need for our participation in export financing transactions.

Since the Bank was reincorporated as a U.S. Government corporation in 1945, in only a very few instances has the Bank's lending rate fallen below the Treasury borrowing rate for equivalent, or even longer, maturities. In fact, in 25 out of the 28 years since 1945, Eximbank's lending rate has been significantly above the Treasury borrowing rate.

Similarly, at only a very few times since the Bank began to borrow directly in the private market in 1962 has its borrowing rate in that market exceeded its lending rate. However, the Bank's average borrowing rate on its private borrowing has never exceeded its lending rate.

In the few instances to date when current borrowings were higher than the current lending rate, they were more than offset by the profits of the Bank on operations during the cumulative period from 1945. Moreover, even in those instances, the costs incurred on some current loan disbursements were more than offset by profits accrued on outstanding balances and on other current borrowings at rates lower than the Bank's lending rate, with the result that on an overall basis the Bank's operations showed a profit for the years in which those instances occurred also.

Thus, on a cumulative basis, the Bank's operations have never entailed a so-called subsidy cost. And, let me point out again, the Bank makes a substantial profit on its operations every year, from which it pays an annual dividend to the U.S. Treasury, as well as assisting export sales of U.S. goods and services which, in themselves, generate substantial tax revenues to the Government through increased U.S. employment and corporate income.

GAO Report on Bank's Capital Lending Program

Mr. Long. To what extent do you agree or disagree with the four recommendations of the GAO report, dated February 12, 1973, on the Eximbank? The four recommendations were that Eximbank should develop a system to "(1) provide management with information necessary to determine essentiality of its financing, (2) determine countries and products in greatest need of Eximbank financing, (3) document the basis of management's actions, and (4) provide evaluation of the results of Eximbank financing" (GAO report, February 12, 1973, p. 4).

Please discuss each recommendation separately. For those recommendations with which you agree, what action have you taken to carry out the recommended actions?

Mr. Kearns. We believe that there is merit in all four recommendations in the GAO report, although, as we noted in our comments, several of the suggestions were either already the practice of the Bank or already had been undertaken.

With respect to the first recommendation that the Bank develop a system to provide management with information necessary to determine essentiality of its financing, we believe that we have an effective system for providing relevant information. It is a matter of judgment, of course, as to how good this information is and how well it is used. We believe that it is essentially well used.

On the second point, the GAO recommended that the Bank undertake analyses to discover those markets and products most in need of Eximbank assistance. Although we, of course, are looking at these factors in our general analyses of world trade situations and with respect to specific transactions, we believe that the GAO approach suggests that the Bank should duplicate the efforts of the Commerce Department, which is properly staffed and experienced to perform the recommended analyses. We expect to continue our longstanding cooperation with the Commerce Department in the area of product and country export identification.

With respect to the third recommendation, Eximbank has already taken action to implement the suggestions made by GAO in this connection. Under guidelines recently adopted with the National Advisory Council on International Monetary and Financial Policies, all direct loan memorandums considered by Eximbank's Board of Directors now include discussion of an elaborate series of topics relevant to the case which are taken into consideration by the Board in their decisions.

Concerning the fourth recommendation, in June of last year Eximbank established a planning staff whose major purpose is to provide the Bank's management with evaluative data on the effectiveness of various Eximbank programs in achieving Bank objectives. Over time, the planning staff should be able to provide the Bank's management with useful comparative evaluation of its financial services.

Mr. Long. The GAO report of February 12, 1973, states on page 33 that the "Eximbank did not accept responsibility to prove that its assistance resulted in additional U.S. exports."

Is this statement correct? If so, why is your argument that "in fiscal year 1972 Eximbank contributed $3 billion to the credit side of the U.S. balance of payments" on page 4 of your statement any more than an unsupported assertion?

Mr. Kearns. First, let me say that nobody yet has really defined what "additionality" means. As I said before, as far as we know, no precise formula has been developed as an accurate measurement for this concept. It is our understanding that AID once attempted this, but that their effort did not prove satisfactory and was therefore dropped. We believe that it is a somewhat spurious concept lacking any precise definition. However, if the GAO believes that they can develop an effective formula, we would be glad to look at it. In the meantime, we must use all of the sources available to us, including our government agencies, U.S. embassy staffs, and responsible people in the trade including buyers and sellers, to obtain the information we need to evaluate whether our participation in the financing of an export sale is necessary to actually consummate the sale, so that the U.S. businessman does not lose out to his foreign competition.

Financing of Exports to the Soviet Union

Mr. Long. Mr. Kearns, a Baltimore Sun report of April 5, 1973, page A4, on your trip to Russia states that the Eximbank "approved three loans to the Soviet Union totaling $108.1 million without requiring the basic information it normally gets from western countries."

What information did you not receive from the Soviet Union that you usually receive from western countries? Have you received additional information to date?

Does an Eximbank policy exist that will require less information on loans to the Soviet Union than on loans to other western countries?

Mr. KEARNS. What I said, which incidentally was reported in various ways in several different newspapers, was that before Eximbank could justify extending the large amounts of credit to the Soviet Union which may be required for some of the sizable transactions being discussed, we would have to have balance of payments and reserve figures for that country the same as we have for other countries. We do have trade figures now, that is, export and import breakouts by country for both hard currency and COMECON countries trade, but at the present time we don't have the other figures, such as those published routinely by the western countries. Our policy for making credit judgments on transaction involving the Soviet Union is the same as that applied to all of our transactions worldwide.

Mr. LONG. Mr. Kearns, the same Baltimore Sun article, April 5, 1973, page A4, reports that American businessmen and Soviet officials are talking about $2 billion to $3 billion in Eximbank credits by 1975. The article states that you said that such mammoth loans would be difficult without "more information and congressional clearance."

At what stage is consideration of these loans? When will you obtain more information on these loans and when will you ask for congressional clearance?

Mr. KEARNS. We have received no applications to date for amounts in that magnitude. At such time as we might, we of course would have to take them into account in relation to our total commitment authority, which is set by the Congress in our enabling legislation, and in our fiscal year program activity estimates, which are reviewed annually by this committee and approved by the Congress. So we would expect to keep Congress fully informed through both of these channels at such time as we are looking at potential financing of anywhere near that magnitude.

BANK'S EMPLOYMENT LEVEL

Mr. ROYBAL. I would like to inquire further along the lines that I started to earlier during today and that is to go back to your administrative costs, particularly as they relate to employment.

How many employees does that include?

Mr. KEARNS. An average of 398 for fiscal year 1974.

Mr. ROYBAL. Are all those employees American citizens?

Mr. KEARNS. Yes; with the single exception of one secretary in Hong Kong.

Mr. ROYBAL. You are not classified as an international organization?

Mr. KEARNS. We are a U.S. Government corporation.

Mr. ROYBAL. How many do you have now?

Mr. KEARNS. In our report to you 398; 386 right now.

Mr. ROYBAL. 398 employees. What is the composition of them?

ETHNIC COMPOSITION OF BANK EMPLOYEES

Mr. KEARNS. About 16 percent, or 62 persons, are black. We have two with oriental background, one with American Indian background, and one Spanish-American.

Mr. ROYBAL. There are 62 black, which is 16 percent. Two oriental, and one Spanish-speaking?

Mr. KEARNS. That is right.

Mr. BOSTWICK. We have four Spanish, two oriental and one Indian at this time.

EMPLOYEES OF MEXICAN AMERICAN BACKGROUND

Mr. ROYBAL. I knew you had increased your Spanish-speaking personnel, but I didn't know by how many.

In other words, you increased it by two then? Or by three actually, from last year?

Mr. BOSTWICK. This is Spanish surname, not Spanish-speaking. We have probably 25 people who speak Spanish.

Mr. ROYBAL. I am referring primarily to Mexican Americans. How many do you have in your employ?

Mr. BOSTWICK. Four.

Mr. ROYBAL. When I say Spanish-speaking, I use the term very broadly. I know some of you also speak Spanish after a fashion, but that doesn't make you Spanish-speaking.

You have then four Mexican Americans in your employ. What percentage is that of your overall employment?

Mr. KEARNS. About 1 percent.

Mr. ROYBAL. You do have the President's 16 point program. Why has that not been implemented with regard to the Mexican Americans?

LACK OF QUALIFIED MEXICAN AMERICAN APPLICANTS

Mr. KEARNS. Presumably because we haven't been able to find the people to employ. You see, we have to handle all of this through our regular civil service referrals. We would like to broaden the base because we have people from all over the world coming into the Bank.

OFFER OF RECRUITMENT ASSISTANCE FOR MEXICAN AMERICAN APPLICANTS

Mr. ROYBAL. I get the same excuse from other agencies, that they can't seem to find qualified Spanish-speaking or Mexican Americans. I will make you the same offer I made another organization. That is, I will make available my office in Los Angeles for you to interview qualified Mexican Americans for any position in any category with regard to banking, particularly in the higher accountancy level. I hope, however, that you can do better than some other agencies.

Mr. KEARNS. Will they live in Washington?

Mr. ROYBAL. They will live in Washington.

Mr. KEARNS. We will be very happy to consider any of them.

Mr. ROYBAL. They will be happy to live in Washington.

Let me tell you about another agency I made that offer to. They interviewed 18 people in my office all preselected to meet every requirement for the job being offered, and not a single one was hired.

Mr. KEARNS. Mr. Roybal, we would be delighted to interview them, and we will be pleased to consider them and hire them if they are qualified to do what we have for them to do. We have absolutely no reason for not doing it.

Mr. ROYBAL. It is only the qualified people that I am referring to. I do not ask you to hire someone simply because he happens to be a Mexican American. He has to be a well-qualified individual who can do the job that you would be requiring him to do.

The point that I am making is that most of the time we can prove by these statistics that a real effort has not been made. The extent of the effort of most agencies tell me, including civil service, is the posting of a bulletin in the college dorms or on a bulletin board somewhere. I don't think that is a genuine effort of recruitment. A real effort has to be made, perhaps patterned after that used by the U.S. Army, or some private firms that go into the community, schools, colleges, and even that go to other firms to recruit young men and women for these jobs. It is that kind of an effort that I would like to see the Federal Government engage in.

LIMITED VACANCIES AT BANK

Mr. KEARNS. Mr. Roybal, our problem is that we have such a small base and so little turnover. You see, we can't increase it beyond 400, and so about the only thing we can do is fill vacancies.

We don't have people going around recruiting now. We have to depend on someone coming in to us or being referred to us.

If there is any way that you can refer these people to us, we would be delighted to have them. We would like to broaden our base.

Mr. ROYBAL. If you would tell me what it is that you need, either now or in the future, I will be happy to cooperate. I don't like this quite obvious discrimination which may not be intentional, but it is still reflected in the percentage rates. When one particular ethnic group has an employment rate that is much higher than parity and the second largest minority in the United States much lower, then something is wrong.

Mr. KEARNS. Would it be helpful if we give you a schedule of the openings we have on a regular basis? Would that be helpful to you?

Mr. ROYBAL. Yes, sir, and I would be happy to cooperate.

I don't guarantee that I am going to find the most qualified person every time, but I will make every effort and be as helpful as I can, and perhaps we can improve the situation.

Mr. KEARNS. We would be delighted. We have so many people from the Spanish-speaking countries coming into the Bank that it would be a great help to us to have employees of that heritage.

Mr. ROYBAL. This is why I am surprised that you only have four. I thought you really only had one, and then I was told this morning that you had increased it, but I didn't know by how many. I hope that next year we can say that we have increased it by many more than we have at the present time.

I realize that you cannot hire over so many, and that you are not going to fire someone just to hire another person of another ethnic group, I don't expect you to do that, but let's let attrition handle it and concentrate a little bit on the President's 16-point program. I think it is most important we do that.

Mr. KEARNS. We will do that.

FOREIGN SUBSIDIZATION OF EXPORT SALES

Mr. MILLER. I was interested in the cost of production. We talked about the balance of payments. Then we get into cost of production. I am not sure just where we stand, but at the present time you have stated we are competitive. I am wondering how far other countries go in subsidizing. Do you have any information you can shed on that?

Mr. KEARNS. It varies. There is nothing static in this business. For example, we had a bad situation in Brazil recently where the U.S. suppliers were trying to sell some steel mill equipment. The Japanese decided they wanted that business, so they went in and made proposals at 50 percent of the price of the United States and the European proposals. They got the business, but everyone we talked to said they bought it at considerably less than actual costs of production.

Now, whenever a situation like that occurs, it is difficult to say that we will be competitive, but at the same time we have the same kind of equipment considered in Korea, Taiwan, Iran, Spain and we are selling it. So you come to the conclusion that in the markets that are not of special interest, that is, where you do not have this Government subsidy, our products are price competitive.

COST OF PRODUCTION FACTOR

Mr. MILLER. Let's look at the other side of the coin. We have had problems in this country for some time in our leather industry. It is not a high technology product; we are aware of that. We have quite a few imports from Spain and Italy. Now there we seem to be going on cost of production. The fact that their cost of production is so much lower than ours they seem to be able to ship in and sell their commodities at a profit, which apparently is pretty close to our cost of production or maybe even a little under.

I am trying to unravel this a little. When we talk about balance of payments, that seems to be one thing, because a subsidy is involved, but cost of production is a little different story. Do you have any information on leather products?

SHOE AND LEATHER GOODS MARKETING

Mr. KEARNS. Yes. In the case of shoes, particularly high style shoes which people are buying now, especially the women—they like things that are high style—in those cases where there is a lot of hand labor, we would be at a price disadvantage.

I think, however, that the big thing that has happened is that in the volume shoes the Italians and Spanish, especially, have developed a styling that the buyers in this country like. I think this has been one of the major reasons why they have sold so many shoes here.

Mr. MILLER. It isn't necessarily that they like the styling so much as it is the price. It seems to be so much lower than what we can afford to sell these for.

We have had problems—and I speak of this because in my own congressional district we have had a lot of problems over the last several years in the leather industry. It is because we have imports coming into the country and they are underselling us. It is just that simple.

It must be the cost of production in that country that is shipping in that would allow this to happen.

Mr. KEARNS. That is certainly true in the matter of high style shoes where you have a lot of hand labor. Hand labor in this country has become too expensive.

POTENTIAL EXPORTS FOR SHIPBUILDING INDUSTRY—LNG TANKERS

Mr. MILLER. Can you elaborate a little on the shipbuilding industry? The chairman spoke about the steel industry as such, but with regard to shipbuilding it appears we are going to be moving down the road to where we will need those super tankers you spoke of in order to haul the liquid natural gas, liquid methane. It is coming by all indications, but what share of that market will the United States be able to furnish?

Mr. KEARNS. It is too early to tell at this moment, but all of our preliminary discussions—and we have had very thorough discussions—would indicate that U.S. shipyards will be able to compete with these large specialized tankers.

It is a matter of technology and the ability to produce the cryogenic unit, which is more expensive than the ship hull itself by four or five times.

We have become, I think, dependent upon ship subsidies to the point where our shipyards don't like to consider bidding on a ship unless there is a subsidy attached to it.

Mr. MILLER. Are you saying we will be competitive without that subsidy?

Mr. KEARNS. I am saying we will sell some of the ships. Now, whether we are competitive in price, quality, technology, or whatever it may be, in all cases remains to be seen.

We are in discussion with several of the potential buyers of these ships who are talking to us because they need financing. Each ship runs a hundred million dollars or more, and no buyer can supply that kind of money except through a financing package. In my opinion, our shipyards will be able to capture a good bit of that business, and I think this is the trend we are moving toward.

COMPETITION IN LNG TANKERS

Mr. MILLER. Who besides Japan will we be in competition with?

Mr. KEARNS. The French, the Norwegians, the Swedes, the Spanish, and other shipbuilding countries.

Mr. MILLER. In about that priority?

Mr. KEARNS. Yes. The French are the most active so far. I think, however, that they have some limit to their production, and they have a terrible inflation problem. When you look at one of those $100 mil-

lion ships, it will take 3 to 4 years to build and with 8 to 10 percent inflation that gives the buyer some problems.

With people still looking at our inflation rate of 3 to 4 percent total, it puts us in a better position in that forward planning. I don't say everything is 100 percent our way, but I think we are really in a position to get a good bit of that business.

Mr. MILLER. Without the subsidy? You say we will be able to sell some ships?

Mr. KEARNS. Without the subsidy, yes.

The subsidy would only apply if it was American flag. We couldn't finance it if it was American flag.

Mr. MILLER. I understand. I was just trying to get it straight as to where we stand today. I am interested also in the fact that we would like to build the ships, but also the fact that we need the ships. For example, are you aware of orders that have been placed for the cryogenic hulls?

ORDERS PLACED WITH U.S. SHIPYARDS FOR LNG TANKERS

Mr. KEARNS. Yes.

Mr. MILLER. This is a slow operation. It takes time to construct. Are we really moving so that we will have some supply of energy as we need it?

Mr. KEARNS. I don't know exactly how many orders have been placed, but we do know some orders have been placed. I know of at least three and possibly more. We could get the names of the shipyards who actually have orders. There are a great many more in negotiation.

Mr. MILLER. Mr. Chairman, if we could get that for the record, I would appreciate it.

Mr. KEARNS. We can give you the names for those that have been placed. We can also give you the number we know are under negotiation.

Mr. MILLER. That is very good.

[The information follows:]

ORDERS PLACED WITH U.S. SHIPYARDS FOR LNG TANKERS, MAY 23, 1973

Shipyard	Size (cubic meters)	Number
1. General Dynamics, Quincy Shipbuilding Division	125,000	3
2. Newport News Shipbuilding & Dry Dock Co	125,000	3
3. Avondale Shipyards Inc.[1]	125,000	3

[1] Contract is presently under negotiation and not yet firm.

Note: Al lof the above vessels are being supported under Maritime Administration programs, not Eximbank.

PRODUCTS FINANCED BY BANK

Mr. MILLER. I am not sure, being a new member here on the committee, just what products you have financed, in priority and volume. I am wondering if you could furnish that for the record to show what products you have helped move abroad, and the volume of that commodity?

Mr. DUGAN. We can do that.

[The information follows:]

Export-Import Bank of the United States—Authorizations for loans, guarantees and insurance, fiscal years 1971, 1972, and 1973 through Mar. 31

[$ Thousands]

Item:	Authorized amount
Agriculture equipment	$311,189
Livestock	17,362
Fertilizer	243,373
Grain	269,856
Other agriculture equipment	456,736
Motion picture equipment	182,412
Communications equipment	11,787
Printing equipment	78,102
Miscellaneous communications equipment	1,238,725
Heating and cooling equipment	52,412
Building equipment	1,474,033
Earth moving equipment	166,633
Building supplies	79,122
Water supply equipment	41,760
Hydroelectric power	40,999
Nuclear power	1,843,683
Thermal power	171,150
Other power generating equipment	481,872
Pulp and paper	124,697
Metal working equipment	179,338
Chemical processing	273,893
Steel fabricator	143,156
Tire and tubes	85,650
Trucks and heavy equipment	114,236
Automobile production	114,204
Miscellaneous	715,723
Bauxite mining	9,006
Coal mining and processing	28,118
Iron ore mining	201,678
Natural gas extraction	388,662
Petroleum extraction	650,450
Steel mill equipment	431,234
Other mining equipment	406,307
Commercial jet aircraft	934,313
Other commercial aircraft	1,419,809
Highway development	91,664
Railroad equipment	85,721
Trucks, tractors, et cetera	104,801
Airport development	79,763
Passenger cars	581,963
Other transportation equipment	911,459
Military equipment	744,496
Paper and allied products	70,634
Food preparation and service equipment	3,405
Medical instruments and supplies	14,068
Textile goods	39,773
Other—miscellaneous	918,624

Mr. MILLER. Now, with respect to the insurance on that product, would you actually insure the product itself?

Mr. KEARNS. No, we only insure repayment. We don't provide physical insurance. Just repayment.

Mr. MILLER. That is all, Mr. Chairman. Thank you.

EXIM FINANCING SUPPORT FOR EXPORTS TO YUGOSLAVIA, ROMANIA, POLAND, AND U.S.S.R.

Mr. ROYBAL (presiding). Before we adjourn, Mr. Kearns, I would like to ask you to provide for the record the amounts made available to

Yugoslavia, to Romania, Poland, and the U.S.S.R., together with their interest rates and the time in which the payments will be due.

It would be interesting to look at this years from now to see whether they fall under the same category as other nations who have made prompt payments.

[The information follows:]

EXPORT-IMPORT BANK OF THE UNITED STATES—DETAILS OF AUTHORIZATIONS TO POLAND, ROMANIA, U.S.S.R., AND YUGOSLAVIA DURING FISCAL YEAR 1973 THROUGH MAR. 31, 1973

Country and date authorized	Interest rate (percent)	Terms	Gross authorization	Product or purpose
POLAND				
Loans:				
Feb. 1, 1973	6	10SA	$8,910,000.00	Meat processing plants.
Mar. 12, 1973	6	9SA	1,989,000.00	Rolling mill.
Mar. 15, 1973	6	5SA	1,094,850.00	Computer system.
Total loans			11,993,850.00	
Guarantees:				
Feb. 1, 1973	7.25	10SA	8,910,000.00	Meat processing plant.
Mar. 15, 1973	7.25	5SA	1,094,850.00	Computer system.
Total guarantees			10,004,850.00	
Total, Poland			21,998,700.00	
ROMANIA				
Loans: Sept. 28, 1972	6	5SA	431,250.00	Seismic processing system.
Total loans			431,250.00	
Guarantees:				
Sept. 22, 1972	6	10SA	204,000.00	Digital field system.
Aug. 17, 1972	6	10SA	748,000.00	Furnace for steel plant.
Oct. 16, 1972	6	10SA	1,870,000.00	Mechanical forging press.
Sept. 5, 1972	6	10SA	353,600.00	Trucks.
Dec. 26, 1972	6	10SA	4,050,000.00	Gass turbines.
Jan. 8, 1973	6	10SA	1,308,000.00	Forging press.
Sept. 28, 1972	6¾	5SA	431,250.00	Seismic processing system.
Mar. 26, 1973	7.375	6SA	158,400.00	Furnaces.
Mar. 29, 1973	7	5SA	202,500.00	Truck cranes.
Do	7¼	10SA	797,100.00	Helicopters.
Total guarantees			10,122,850.00	
M/T Insurance:				
Sept. 11, 1972	6	6SA	69,300.00	Increase (including) truck cranes.
Dec. 1, 1972	6	10SA	567,000.00	Centrifugal contractors.
Total M/T insurance			636,300.00	
S/T insurance (total shipments)		(1)	3,314,480.57	
Total, Romania			14,504,880.57	
U.S.S.R.				
Loans:				
Feb. 21, 1973	6	7SA	11,671,650.00	500 Submersible electric pumps.
Mar. 5, 1973	6	10SA	3,102,912.00	Cupronickel and stainless steel tableware plants.
Do	6	12SA	86,450,000.00	Truck plant.
Total loans			101,224,562.00	
Total, U.S.S.R.			101,224,562.00	
YUGOSLAVIA				
Loans:				
Nov. 16, 1972	6	14SA	2,475.00	Electric sets and switch gears.
July 27, 1972	6	10SA	6,750,000.00	Mining equipment.
July 31, 1972	6	5SA	1,047,250.00	Computer systems.
Aug. 31, 1972	6	12SA	14,300,000.00	Rod mill.
Sept. 26, 1972	6	7SA	1,759,781.00	Expand battery plants.
Oct. 30, 1972	6	10SA	2,338,459.00	Jet aircraft.
Dec. 21, 1972	6	14SA	4,504.43	Including paving equipment.
Dec. 11, 1972	6	14SA	7,200.00	Including cement mixer.
July 3, 1972	6	14SA	37,423.06	Tractors.

EXPORT-IMPORT BANK OF THE UNITED STATES—DETAILS OF AUTHORIZATIONS TO POLAND, ROMANIA, U.S.S.R., AND YUGOSLAVIA DURING FISCAL YEAR 1973 THROUGH MAR. 31, 1973—Continued

Country and date authorized	Interest rate (percent)	Terms	Gross authorization	Product or purpose
July 10, 1972	6	14SA	5,220.00	Concrete testing equipment.
July 24, 1972	6	14SA	15,875.55	Pneumatic vibrator.
Aug. 17, 1972	6	14SA	1,752.75	Electrical appliances.
Aug. 28, 1972	6	14SA	6,006.15	Parts for utility vehicles.
Oct. 25, 1972	6	14SA	5,431.08	Equipment for Latin America.
Do	6	14SA	6,866.28	Do.
Nov. 14, 1972	6	14SA	81,065.25	Trucks for Latin America.
Do	6	14SA	346.50	Soil testing equipment.
Do	6	14SA	60,785.55	Crushing plant.
Do	6	14SA	9,199.14	Trucks for Latin America.
Nov. 21, 1972	6	14SA	102,159.90	Do.
Do	6	14SA	24,641.37	Concrete pumps for Latin America.
Nov. 29, 1972	6	14SA	9,392.85	Generating sets for Latin America.
Do	6	14SA	13,950.00	Dam equipment for Latin America.
Dec. 7, 1972	6	14SA	125,876.79	Steel forms for Latin America.
Dec. 11, 1972	6	14SA	6,210.00	Utility vehicles for Latin America.
Do	6	14SA	3,155.68	Concrete buckets.
Dec. 13, 1972	6	14SA	2,098.52	Spare parts for dam.
Feb. 16, 1973	6	14SA	96,471.00	Equipment for Africa.
Feb. 26, 1973	6	10SA	5,208,000.00	Telecommunication equipment.
Mar. 8, 1973	6	14SA	166,142.13	(Including) earth moving equipment.
Mar. 22, 1973	6	14SA	26,820.00	Self-propelled compactor.
Mar. 6, 1973	6	14SA	19,239.93	(Including) drilling equipment.
Do	6	14SA	10,883.40	Do.
Do	6	14SA	111,280.11	(Including) rubber tires.
Total loans			32,365,962.42	
Guarantees:				
Aug. 30, 1972	6	10SA	501,000.00	Calcination plant.
Aug. 31, 1972	6	10SA	243,000.00	Hydration plant.
Aug. 3, 1972	6	10SA	267,300.00	Do.
Aug. 30, 1972	6	10SA	263,300.00	Calcination plant.
Aug. 30, 1972	6	10SA	144,700.00	Tractor and loader.
Aug. 14, 1972	6	10SA	2,624,400.00	Pay haulers.
Aug. 22, 1972	6	10SA	243,000.00	Tractors.
Dec. 4, 1972	6	10SA	486,000.00	Construction equipment.
Dec. 15, 1972	6	10SA	159,000.00	Computer systems.
Jan. 24, 1973	6	10SA	450,000.00	Various equipment.
Jan. 23, 1973	6	6SA	267,800.00	Coin amusement games.
Jan. 30, 1973	6	10SA	307,800.00	Communication equipment.
Aug. 16, 1972	6	10SA	243,000.00	Prune processing machine.
Aug. 14, 1972	6	10SA	510,400.00	Wire drawing.
Sept. 22, 1972	6	10SA	405,000.00	Pumps.
Nov. 21, 1972	6	14SA	102,159.90	Construction equipment.
Do	6	14SA	24,641.37	Pumps for Latin America.
Nov. 29, 1972	6	14SA	9,392.85	Generating sets for Latin America.
Do	6	14SA	13,950.00	Dam equipment for Latin America.
Dec. 7, 1972	6	14SA	125,876.79	Forms for Latin America.
Dec. 11, 1972	6	14SA	6,210.00	Utility vehicles for Latin America.
Do	6	14SA	3,155.68	Concrete buckets.
Dec. 13, 1972	6	14SA	2,098.51	Parts for Latin America.
Nov. 17, 1972	6	14SA	2,475.00	(Including) dam equipment for Latin America.
Dec. 21, 1972	6	14SA	4,504.43	(Including) paving equipment.
Dec. 11, 1972	6	14SA	7,200.00	(Including) cement mixers.
July 3, 1972	6	14SA	37,423.07	Tractors.
July 10, 1972	6	14SA	5,220.00	Concrete testing equipment.
July 24, 1972	6	14SA	15,875.55	Pneumatic vibrators.
Aug. 17, 1972	6	14SA	1,752.75	Electrical appliances.
Aug. 28, 1972	6	14SA	6,006.15	Parts for utility vehicles.
Oct. 25, 1972	6	14SA	5,431.07	Equipment for Latin America.
Do	6	14SA	6,866.28	Do.
Nov. 14, 1972	6	14SA	81,065.25	Trucks for Latin America.
Do	6	14SA	60,785.55	Crushing plant.
Do	6	14SA	9,199.14	Trucks for Latin America.
Aug. 10, 1972	6	6SA	25,353.03	Communications equipment.
Nov. 16, 1972	6	6SA	126,035.91	Recorders and controller.
July 27, 1972	7	10SA	6,750,000.00	Mining equipment.
July 31, 1972	6	5SA	1,047,250.00	Computer systems.
Aug. 31, 1972	7	12SA	14,300,000.00	Rod steel mill.
Sept. 26, 1972	6.375	7SA	1,759,781.00	Expand battery plants.
Oct. 30, 1972	7.25	10SA	2,338,459.00	Jet aircraft.
July 27, 1972	7	20SA	3,750,000.00	Mining equipment.
Aug. 31, 1972	7	12SA	4,800,000.00	Rod steel mill.
Aug. 21, 1972	6	8SA	64,850.00	Construction equipment.
July 5, 1972	0	8SA	28,800.00	Computer equipment.

EXPORT-IMPORT BANK OF THE UNITED STATES—DETAILS OF AUTHORIZATIONS TO POLAND, ROMANIA, U.S.S.R., AND YUGOSLAVIA DURING FISCAL YEAR 1973 THROUGH MAR. 31, 1973—Continued

Country and date authorized	Interest rate (percent)	Terms	Gross authorization	Product or purpose
Feb. 1, 1973	6	10SA	172,200.00	Rotary drill rig.
Do	6	10SA	153,000.00	Do.
Do	6	10SA	1,215,000.00	Construction equipment.
Feb. 16, 1973	6	14SA	96,471.00	Do.
Feb. 26, 1973	6	10SA	5,208,000.00	Telecommunication equipment.
Dec. 22, 1972	6	14SA	89,316.00	Communication equipment.
Mar. 6, 1973	6	14SA	19,239.94	Drilling equipment.
Do	6	14SA	10,883.39	Including drilling equipment.
Do	6	14SA	111,280.12	Including rubber tires.
Mar. 22, 1973	6	14SA	26,820.00	Self-propelled compactor.
Mar. 8, 1973	6	14SA	166,142.14	Earth moving equipment.
Do	6	10SA	335,300.00	Construction equipment.
Total guarantees			50,241,170.87	
M/T insurance:				
Aug. 31, 1972	6	10SA	14,100.00	Including textile machinery.
July 5, 1972	6	10SA	576,800.00	Logging equipment.
July 20, 1972	6	10SA	121,500.00	Construction equipment.
July 31, 1972	6	14SA	729,000.00	Aircraft.
Aug. 25, 1972	6	10SA	437,400.00	Do.
Aug. 29, 1972	6	10SA	486,000.00	Insulating machinery.
Aug. 31, 1972	6	10SA	486,000.00	Wire drawing machinery.
Sept. 1, 1972	6	10SA	272,400.00	Front end loaders.
Do	6	10SA	186,300.00	Earth moving equipment.
Sept. 13, 1972	6	10SA	148,000.00	Tractors.
Dec. 18, 1972	6	10SA	648,000.00	Diesel locomotives.
Oct. 10, 1972	6	8SA	48,600.00	Aircraft.
Oct. 26, 1972	6	10SA	567,000.00	Do.
Nov. 30, 1972	6	6SA	75,700.00	Parking meters.
Dec. 21, 1972	6	10SA	241,500.00	Insulator and boring machine.
Dec. 20, 1972	6	10SA	264,100.00	Charcoal briquetting machine.
Total M/T insurance			5,302,400.00	
S/T insurance (total shipments)		(1)	3,770,479.44	
Total, Yugoslavia			91,680,012.73	
Grand total, fiscal year 1973 through Mar. 31, 1973.			229,408,155.30	

[1] Less than 1 year.

BANK REPAYMENT EXPERIENCE

Mr. ROYBAL. I was very interested in reading that you have an excellent bad-debt experience. Not that you have had many bad debts. I mean it is the other way around. It sounds as though your record involved very bad debts.

To what do you attribute that? It seems to me to be a very excellent record.

Mr. KEARNS. That is very easy. The Export-Import Bank is such a major influence in the extension of credit to most countries, particularly countries that might have a little problem getting credit otherwise, that if a country defaults on a credit to Export-Import Bank, or threatens to default, we simply cut them off from any further loans or guarantees.

If we cut them off, the chances are they can't get any credit from any other financial institution in the United States or outside the United States. All financial institutions, domestic or foreign, take cognizance of Eximbank's actions. We use that as a means of making collections. We say, "You don't really want to go out of business, do you?"

And if it is a country that is serious and intends to use credit, they will see that obligations to Eximbank are paid. If it is a private buyer and he intends to say in business, he will pay because he can't afford not to. That is the reason the credit is so good.

We do try, and I think do a good conscientious job, probably as good as any private business, in determining reasonable assurance of repayment when we go into a transaction. In other words, we don't feel we are doing the buyer any favor if we put him into a default position, that is, if we encourage him to go into a transaction he can't pay for.

So, in every transaction in which we are involved, we look down the line and say, "How are you going to pay for it? What is your cash flow? What have you in the way of resources?" And if they can't show this to us, we don't make credit available.

This is not an absolutely sure thing because conditions change and a good solid business today may be broke tomorrow; but we do know, and they know, that if they default, they are surely out of business. This is the biggest collection tool we have.

Mr. ROYBAL. Yes, but you must also take credit for the fact that you know what loans to grant.

Mr. KEARNS. We do a good job of that. I think the bank does an excellent job of credit judgment.

Mr. ROYBAL. If you didn't, then your experience would be the other way around, in my opinion at least.

Mr. KEARNS. It wouldn't be as bad as a private lender because they can default on one and go to another, but with us they can't.

PROCEDURE IN EVALUATING CREDIT APPLICATION

Mr. ROYBAL. How is a loan approved?

Mr. KEARNS. We receive an application for a loan from a borrower, after some initial negotiation and then our staff examines it. We have project and product divisions which receive the initial application and coordinate it through the whole process; a financial analysis division; a research division that looks into the country's ability to service the debt; engineers to look into the technical aspects of project credits; and a legal department to look into that aspect. They all do this simultaneously and then the staff prepares a memorandum to the Board in which they outline all of these aspects, and the Board of Directors examines it and makes a decision as to whether or not the transaction is worthy of support.

It may mean that we go back to the borrower and say, "We don't believe that you're credit-worthy to this extent. We insist that you get a guarantor."

We have found in Export-Import Bank transactions that even though people usually take mortgages or liens as a security—this is normal business—it would be almost impossible to conceive of the Export-Import Bank going to a Nigerian, for example, and repossessing a factory. So if that is the way they, achieve security, we say, "Why don't you get a local bank to take the mortgage," and then the local bank guarantees us.

We have a very capable staff that can work with these potential borrowers.

REQUIREMENT TO FIND "REASONABLE ASSURANCE OF REPAYMENT"

The legislation that you gentlemen enacted as a basis for our operation, says that we must have "reasonable assurance of repayment." That is one of the requirements and we have that emblazoned on our mind. Every time we have a transaction, we must have reasonable assurance. We look into it.

Mr. ROYBAL The real reason for that excellent record is that you have an excellent system.

Mr. KEARNS. It is hard for borrowers to default.

Mr. ROYBAL. The other is just a little frosting on the cake. I think it is the simple fact that you have such a fine system of approving these loans.

PERCENTAGE OF APPLICATIONS APPROVED

Mr. MILLER. What percentage of the loans are you able to approve?

Mr. KEARNS. A very high percentage.

Mr. MILLER. What percentage of the applications?

Mr. KEARNS. A high percentage that comes to the Board. The percentage before the Board is probably 98 percent. Our staff is trained to try to work out a transaction before it comes to the Board, and if they find that it doesn't have this criteria or that criteria, then they tell the borrower, "Well, we can't do it on that basis." Then the borrower will either find a basis where we can or the transaction doesn't come to us in the end.

Mr. MILLER. That is coming to the Board now. Those applications coming to the staff, what percentage of those would you say could be approved eventually by the Board?

Mr. BOSTWICK. Over 95 percent—less than 5 percent are rejected for policy reasons.

PRELIMINARY COMMITMENT PROCEDURE

Mr. KEARNS. I should explain the procedure we follow and then you will understand why this percentage is so low.

For the last 4 years we have followed a preliminary commitment procedure. In other words, we encourage an exporter or a buyer at the early stages of consideration of a transaction, before a decision has been made to buy, to come to us and give us the facts, and if the facts warrant it we will issue to him a preliminary commitment to finance. We will say, "If this, this, this and this are so—"—in other words, if the transaction is economically sound—"If you have the cash flow to service it, if you can assure us of reasonable assurance repayment, and if certain other criteria are met, then we will provide you with the financing, and you can depend on it."

We receive applications for this kind of a commitment at the rate of about $1,200 million a month average now. Of those, about 40 percent convert into business. In other words, we give the supplier or the buyer this indication of financing which will be available for the transaction. Then he sees if he can meet these criteria. If he can, then that preliminary commitment converts into business.

I think if you are thinking of the number we actually turn down, it is very small but if you take the other, then you have a greater attrition because the transaction itself is not sound. So we weed it out with this two-step procedure. We determine that it is sound before it actually becomes an application for credit.

Mr. MILLER. Thank you.

Mr. ROYBAL. Mr. Kearns, we thank you very much for your testimony, and thank also those who are with you. The meeting is now adjourned.

TUESDAY, MAY 22, 1973.

ASIAN DEVELOPMENT BANK

WITNESSES

JOHN M. HENNESSY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT
REX BEACH, U.S. DIRECTOR-DESIGNATE OF THE ASIAN DEVELOPMENT BANK

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
1. Investment in International Bank for Reconstruction and Development		62,340	
2. Investment in International Development Association	38,020	347,427	347,427
3. Investment in Inter-American Development Bank	104,286	445,464	527,143
4. Investment in Asian Development Bank		8,571	100,000
Total program costs, funded—obligations (object class 33.0)	142,306	863,802	974,570
Financing:			
Unobligated balance available, start of year:			
Appropriation	−1,398,520	−2,650,274	−2,524,852
Authority to spend public debt receipts	−5,715,000	−5,715,000	−5,715,000
Unobligated balance available, end of year:			
Appropriation	2,650,274	2,524,852	2,663,662
Authority to spend public debt receipts	5,715,000	5,715,000	5,715,000
Budget authority	1,394,060	738,380	1,113,380
Budget authority:			
Appropriation	1,934,810	738,380	1,113,380
Transferred to other accounts	−540,750		
Appropriation (adjusted)	1,394,060	738,380	1,113,380
Relation of obligations to outlays:			
Obligations incurred, net	142,306	863,802	974,570
Obligated balance, start of year	1,820,438	1,687,050	2,130,552
Obligated balance, end of year	−1,687,050	−2,130,552	−2,565,808
Outlays	275,694	420,300	539,314

Mr. PASSMAN. The committee will come to order. We shall continue the examination on the requests for funds for the foreign assistance program this afternoon. The item that we will take up will be the Asian Development Bank.

We have as witnesses the Honorable John M. Hennessy, Assistant Secretary for International Affairs, Treasury Department, and Mr. Rex Beach, U.S. Director-designate of the Asian Development Bank.

You are requesting for fiscal 1974, $100 million for the Special Fund, is that correct?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. I would assume, Mr. Secretary, you have a statement for the committee.

Mr. HENNESSY. I covered the general aspects in the overall statement I gave on April 5. So I have no new statement. Mr. Beach has one on the details of the operations of the Bank.

Mr. PASSMAN. Mr. Beach, please proceed.

GENERAL STATEMENT

Mr. BEACH. Mr. Chairman, I appreciate the opportunity to appear before you and the other members of this distinguished committee today in support of the administration's requests for (1) a fiscal year 1974 $100 million appropriation for the Special Funds of the Asian Development Bank, and (2) a fiscal year 1974 $121 million appropriation as the first of three equal, annual installments for the U.S. share of the increase in the ordinary capital resources of the ADB.

At the outset, Mr. Chairman, I want to stress that the Asian Development Bank is effectively serving U.S. interests in Asia. It is contributing significantly to the economic growth and development of many U.S. friends and allies in Asia, such as South Korea, the Republic of China, the Philippines, Thailand, Pakistan, and Indonesia. It has been active in South Vietnam since 1969, and it will continue to serve U.S. interests so long as it has adequate resources at its disposal.

The resource position of the Bank is now critical, especially regarding its soft loan, or special funds operations. As of March 15, 1973, the Bank has received contributions of $247 million of special funds from the following 12 countries:

Contributions to ABD Special Funds

	Millions
Austrialia	$10.59
Canada	27.44
Denmark	2.17
Germany	20.73
Japan	156.00
Netherlands	2.46
New Zealand	1.00
United Kingdom	14.84
Belgium	2.00
Finland	1.50
Norway	2.00
Switzerland	6.00
Total	246.73

As you can see, Japan is the largest contributor having provided $156 million or 63 percent of the total. Against these resources, the ADB has made $206 million of Special Funds loans and has an additional $167 million of Special Funds projects under study and analysis in the pipeline which would in the normal course of events be presented to the Board of Directors for approval during the next 12 months. Thus, as is evident from these figures and taking into account the $51.6 million it has transferred to Special Funds from its own ordinary capital, the Bank will run out of unobligated special funds by the fall of this year unless additional resources are provided.

The requested U.S. contribution of $100 million would obviously close the resource gap for this year. The contribution itself would place the U.S. share of Special Funds country contributions at 29

percent of the total, $56 million below the Japanese figure of $156 million or 45 percent of the total.

For the committee's information, I would like to comment briefly on the $167 million pipeline. Indonesia, for example, has approximately $37 million of soft loans under study for power, water, and fishery projects. For South Vietnam, where the Bank has already loaned $11 million of soft money over the last 3 years, the bank has $22 million of projects in the pipeline, again primarily for power and water, as well as telecommunications. In Pakistan, there are $28 million in projects, primarily in power. The remaining $80 million of 1973 pipeline projects are located in Bangladesh, Nepal, Sri Lanka, Afghanistan and Papua, New Guinea. Full information on these future loans and past ones has been provided to the committee.

In addition to supporting U.S. economic development and foreign policy objectives in Asia, a U.S. contribution to the Special Funds will expand U.S. exports to numerous Asia countries in a like amount. The requested $100 million appropriation contains a tying provision whereby the funds can be spent only on procurement of U.S. goods and services. At present the United States is ineligible to bid on Special Funds provided by other countries. Asia is an area where Japanese traders have had an advantage in the past particularly before the two realinements of foreign exchange. It is especially important that U.S. firms be given the opportunity to bid on Special Funds projects—it will give us a larger foot in the door in countries such as Indonesia where they are currently excluded. Let's discuss Indonesia because of the tremendous economic potential of that nation of 115 million people. While our bilateral aid is also given to Indonesia, it is declining and the more U.S. equipment can be introduced and used in Indonesia at this stage of its development, the greater will be future U.S. sales of replacement parts and new capital equipment as that economy expands.

In this connection, I also want to seek the counsel of this committee on a proposal now being discussed to restructure and replenish the soft loan resources of the Asian Development Bank with agreed shares and standardized operating terms. Success in this effort will require U.S. participation.

It appears possible that other contributor countries might regard our original $100 million contribution (which would remain tied) as a major part of our share of such future replenishment, while the other industrial members would make substantial new contributions. This would result—in practical effect—in double duty dollars and would bring about a substantial reduction of our share in the financing of the institution. In contrast, the Japanese share would sharply increase. This strikes me as a promising and indeed, unique opportunity to maximize the leverage—in terms of development impact and burden sharing—of our long-delayed contribution. I believe this approach needs to be further explored. We have made no commitments in this regard and I solicit and welcome the reaction of this committee to what seems to me a highly promising development.

In addition to the $100 million request for ADB Special Funds, Mr. Chairman, the administration's request also includes $121 million as the first of three equal, annual installments for the U.S. share of the increase in the ordinary capital resources of the Asian Development

Bank. At present our ownership share in the Bank has dropped to 9 percent from its original share of 19 percent. This is too low to maintain a sufficient degree of U.S. influence and control over the Bank and its operations. The United States has an important stake in Asia and must maintain both an adequate bilateral and multilateral presence.

Only 20 percent—or $24.2 million—out of the $121 million represents a U.S. budget expense. Eighty percent or $96.8 million is callable, used as guarantees against Bank borrowing in the private markets, $9.68 million represents an actual cash payment to the Bank and the remaining $14.52 million will be held by the Bank in the form of non-interest-bearing promissory notes, which will be encashed over several years.

The Bank has established itself as a sound finance institution in world capital markets and can, therefore, borrow funds more readily in these markets for its lending operations. As you recall, it was necessary in the startup phase of the Bank to have a much larger proportion of paid-in capital on the original subscription. The Bank has now raised $230 million from bond sales in private capital markets for market rate loans to borrowers.

I have already referred to the pattern of the Bank's Special Funds lending, and I would like to comment as well on its lending pattern from ordinary capital resources. The Bank has loaned a total of $743 million. Of this, $197 million has been to South Korea, $100 million to the Republic of China (Taiwan), $105 million to the Philippines, and $75 million to Thailand, all strong friends and allies of the United States in Asia. Together this amounts to $477 million—or 64 percent of the Bank's cumulative ordinary capital lending. I believe the leverage the United States has received in this case has been very high. Countries whose progress will contribute importantly to stability in Asia and to U.S. interests there have received a large amount of resources from the Bank, with a minimum burden on the United States.

We can expect similar returns in the future from the Bank's lending activities. But we can anticipate such returns only so long as we maintain our level of influence in the Bank, and this means participating in the Bank's capital increase.

At this point, Mr. Chairman, I would like to make a few general remarks about the Bank's management and operations. As you know, Shiro Inoue succeeded Takeshi Watanabe as president of the ADB last November. Mr. Inoue has demonstrated great candor, frankness, and an open mind regarding all matters of Bank policy and operations. His past experience working in the United States and our most recent contacts with him at the annual meeting in Manila have convinced us that we have a first-rate president, one who will be responsive to our and the Bank's interests.

Furthermore, Mr. Chairman, I would like to point out several changes in Bank policies and procedures resulting directly from concerns we have expressed.

First, the Bank has increased its recruiting efforts in the United States. We now have 20 U.S. professionals on the staff, second only to Japan's 29. Moreover, a major Bank recruiting trip to the United States is scheduled for early summer in an attempt to further increase the number of Americans at the Bank.

I might add that U.S. nationals are occupying policy positions within the Bank. The general counsel is American, which is especially important since members of his staff take part in every loan mission and all loan negotiations. The chief economist is American; two of the six division chiefs in the operations department are Americans; and one of the four in the projects department is from the United States.

Second, the Bank now provides 3 weeks between the submission of an issue to the board of directors and actual discussion of that issue by the board. This provides sufficient time for us in Manila to send the document to Washington, have it reviewed there by the National Advisory Council, and receive back guidance on the U.S. position prior to board discussion.

Now that projects are being completed, the Bank has also started work toward establishing an evaluation mechanism to independently review Bank projects. In my judgment, this is a very important matter and we are pressing hard for early establishment of an effective mechanism.

Even though the Bank has adjusted many of its operating procedures, we still are faced with problems of considerable concern, most notably with the U.S. procurement share of Bank financed projects. Currently, U.S. firms get 8 percent of the business, while Japanese firms receive 56 percent. I have been concerned, as you have, about this situation. The operative factor in my view has been our declining competitiveness in recent years. The two exchange rate realinements have been designed to restore that competitiveness. For example, the realinement against Japan has been 35 percent, while that against Germany has been 29 percent. This should be a very significant help.

In the selection of consultants, where selection is based on technical proposals and competence, U.S. firms get over 50 percent of the business. Yet when price enters into the picture with the supply of equipment, the United States has tended to do very poorly. Of the 86 contracts above $500,000 awarded so far by Bank borrowers, U.S. firms have bid on only 29 and where U.S. firms have bid and lost, they lost to the Japanese only 40 percent of the time and to the United Kingdom, France, West Germany, et cetera, the other 60 percent of the time. In other words, the problem is a broad one relating to lack of competitiveness of U.S. goods and low sales performance by U.S. firms.

We have taken steps to assure that much more information is given—and goes promptly—to our firms on procurement opportunities arising from Asian Development Bank financing. From my own conversation with American businessmen in the region, I can report that they also are encouraged by the increased opportunities brought about by the realinement of currencies.

Let me emphasize that on the basis of independent examination we see no evidence of deliberate discrimination against U.S. firms in the Bank's policies or procedures. Several months ago, we assigned one of our staff men in Manila the task of reviewing all the Bank's proceurement guidelines in detail. More recently, the Treasury Department employed an outside consultant, familiar with IBRD and IDB procurement practices and problems, to examine the ADB guidelines. Both reviews definitely concluded that Bank guidelines on procurement are objective and unbiased and that the Bank administers its procurement

review process fairly. However, we shall continue to work to assure the procedures of the Bank and its borrowers provide an ample and fair competitive opportunity for U.S. business.

After 6 years of operational experience, the management of the Asian Development Bank is now initiating a timely review of its organization and procedures. As I mentioned, the new President of the Bank has shown himself to be especially responsive to concerns the United States may have with the Bank. He fully appreciates criticisms which we have voiced and has every intention of rapidly improving the Bank's operations and image, especially as the Bank is viewed from a U.S. standpoint.

In summary, Mr. Chairman, I strongly support the administration's request for special funds and a further ordinary capital contribution to the Asian Development Bank. The ADB is effectively serving U.S. friends and allies in Asia, and they contribute significantly to the economic growth so necessary to stabilize that region.

For these reasons, Mr. Chairman, I urge you and the members of your committee to view the requests favorably. I would also like to introduce several items into the record including letters from Secretary of State Rogers and AID Administrator Hannah in support of this appropriation, a copy of Under Secretary Volcker's statement at the recent annual meeting of the Asian Development Bank in Manila and a special report on Asian Development Bank procurement practices and procedures.

JUSTIFICATION

Mr. PASSMAN. Thank you for your statement. We will insert the justifications in the record at this point.

[The justifications follow:]

Investment in Asian Development Bank

TREASURY DEPARTMENT

FUNDS APPROPRIATED TO THE PRESIDENT
ASIAN DEVELOPMENT BANK
(DOLLARS IN THOUSANDS)

Authorizations	Total, U.S. Participation Authorized	Appropriations	Amount
Public Law 89-369		Second Supplemental Appropriation Act, 1966:	
Callable Capital	100,000	Callable Capital Stock	100,000
Paid-in Capital	100,000	Paid-in Capital	40,000
		Foreign Assistance and Related Agencies Appropriation Act, 1969	20,000
		Foreign Assistance and Related Agencies Appropriation Act, 1970	20,000
		Foreign Assistance and Related Agencies Appropriation Act, 1971	20,000
	200,000		200,000
Public Law 92-245:		1974:	
Contribution to Consolidated Special Funds	100,000	Budget Estimate	100,000
	100,000		100,000
Proposed for later transmittal, proposed legislation:		Proposed for later transmittal, proposed legislation:	
Paid-in Capital	65,142	Paid-in Capital	21,714
Callable Capital	260,571	Callable Capital	86,857
	325,713		

ASIAN DEVELOPMENT BANK

ORDINARY CAPITAL

JUSTIFICATION FOR FY 1974
APPROPRIATION

(Later Transmittal)

The Asian Development Bank finances economic development projects and programs in the developing countries of Asia and the Pacific Region. Like the Inter-American Development Bank, it is an intergovernmental organization, which is corporate in form and whose capital stock is owned by its member governments.

It was established in 1966 and began Ordinary Capital lending operations in 1968. These operations are carried out with the paid-in capital contributions of members and proceeds from borrowings in private capital markets which are based on members' callable guarantee capital subscriptions.

As of December 31, 1972, the Asian Development Bank had 37 member countries -- 23 regional countries, three of which are classified as developed (Japan, Australia and New Zealand) and 14 developed non-regional countries including the United States, Canada, and 12 European countries. As of the same date, the Bank had an authorized capital stock of $2,986 million (current dollars). Of this amount, $2,204 million had been subscribed. As of the same date, cumulative Ordinary Capital commitments were $767 million and net funded debt was $230.5 million.

The Asian Development Bank Act (P.L. 89-369) of March 16, 1966 authorized U.S. membership in the Bank and the appropriation of an original U.S. subscription of $200 million. Of this total subscription amount, $100 million was paid-in cash and letters of credit in annual installments over a five-year period and $100 million was callable. The last installment on the paid-in portion was paid on August 22, 1970.

In November, 1971, the Board of Governors of the Bank approved a 150 percent increase of authorized capital stock and requested all member countries to subscribe their appropriate share. The U.S. Governor did not vote on this Resolution. By November, 1972, however, enough members had subscribed to bring the increase into effect without U.S. participation. Since no authorization proposal has yet been submitted to the Congress, this appropriation request is being made for later transmittal.

Provision has been made for it in the President's 1974 Budget: that is, a total authorization of $325.7 million and a 1974 appropriation of $108.6 million.

Assuming approval of the proposed legislation on change of par value, however, the total authorization would be for $362 million. Of this amount, 80 percent or $289 million would be in callable guarantee capital form and not constitute an actual budgetary outlay. The remaining 20 percent, $72.4 million, would be paid-in over a three-year period, 40 percent in cash and 60 percent in non-interest-bearing letters of credit to be drawn down later as needed for disbursement. New budget authority being requested for fiscal 1974 would be $121 million. FY 1974 budgetary impact is limited to $9.6 million.

An increase in the ordinary capital stock was necessary to permit an orderly expansion of conventional lending activity. U.S. participation, as outlined in the preceding paragraph, will maintain our original equity position and voting strength within the Bank.

ASIAN DEVELOPMENT BANK

SPECIAL FUNDS

FY 1974 APPROPRIATIONS

In addition to its Ordinary Capital operations, the Bank has established and accepted contributions to its agricultural and consolidated Special Funds. These funds are used to finance high priority economic development projects and programs on concessional lending terms. As of December 31, 1972, loan commitments of $201.5 million had been made for this type of financing.

Thus far, a total of over $240 million has been contributed or pledged to these concessional resources by the following countries: Australia, Canada, Denmark, Germany, Japan, the Netherlands, New Zealand, the United Kingdom, Belgium, Finland, Italy, Norway, and Switzerland. In contrast to the International Development Association and the Fund for Special Operations of the Inter-American Development Bank, these funds have been contributed on an unscheduled basis and through bilateral arrangements made between the Bank and each contributor with varying terms and conditions of use.

Legislation authorizing $100 million for a U.S. contribution to Special Funds was approved on March 10, 1972. However, an Administration request for full appropriation of this amount in FY 1973 was not included under the terms of the Continuing Resolution on Foreign Assistance and Related Items passed by The Congress on October 15, 1972 and then extended in February to the end of the fiscal year.

The appropriation request being made for $100 million in FY 1974 has, therefore, already been deferred for one year. It would constitute a U.S. contribution to the Special Funds resources of the Asian Development Bank smaller than that of the Japanese and accounting for less than 30 percent of total funds made available. No expenditures on the amount contributed would be made until needed to meet actual disbursement requirements. Actual budgetary impact in FY 1974 is not expected to be more than $5 million.

CONFIDENTIAL
APPENDIX I

ASIAN DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
BALANCE SHEET
31 December 1972
Expressed in United States Dollars (Note A)

ASSETS

CASH IN BANKS (Note B)			
Member currencies (See Appendix IV)			$ 9,074,470
INVESTMENTS (Note B)			
Government and government-guaranteed obligations - amortized cost			
Maturing within one year (Face amount - $56,933,155)	$ 56,681,393		
Maturing after one year (Face amount - $64,381,955)	63,571,219	$120,252,612	
Time deposits and certificates of deposit			
Maturing within one year	239,180,342		
Maturing after one year	84,797,760	323,978,102	
		444,230,714	
Accrued interest		11,328,924	455,559,638
DEMAND OBLIGATIONS OF MEMBERS (Notes B and C)			
Non-negotiable, non-interest bearing obligations in member currencies (See Appendix IV)			185,694,849
OTHER AMOUNTS RECEIVABLE FROM MEMBERS			
Amounts required to maintain value of currency holdings (Note D)			6,189,814
EFFECTIVE LOANS (See Appendix V) (Note A)			
Held by Bank		573,858,886	
Agreed to be sold		3,638,300	577,497,186
ADMINISTRATION CHARGE RECEIVABLE FROM SPECIAL FUNDS RESOURCES (Note A)			8,711,000
UNAMORTIZED FUNDED DEBT ISSUANCE EXPENSES (Note A)			4,632,783
OTHER ASSETS			3,505,693
SPECIAL RESERVE FUND ASSETS (Note E)			1,530,646
TOTAL			$1,252,396,079

LIABILITIES, RESERVES AND CAPITAL

LIABILITIES			
Accrued interest on funded debt		$ 3,596,385	
Accounts payable and other liabilities		933,413	
Undisbursed balance of effective loans (See Appendix V)			
Held by Bank	$455,616,978		
Agreed to be sold	3,638,300	459,255,278	
Funded debt (See Appendix VI)		229,222,227	$ 693,007,303
AMOUNTS PAYABLE TO MEMBERS			
Amounts required to maintain value of currency holdings (Note D)			2,410,643
SPECIAL RESERVE (Note E)			1,530,646
CAPITAL			
Capital stock (See Appendix VII) (Note C)			
Authorized - 88,000 "paid-in" shares and 187,000 "callable" shares of $10,857 par value each			
Subscribed (203,036 shares)		2,204,390,857	
Less "callable" shares subscribed (132,265 shares)		1,436,020,000	
"Paid-in" shares subscribed (70,771 shares)		768,370,857	
Less subscription instalments not due		228,681,829	
Subscription instalments matured		539,689,028	
Less capital set aside and transferred to Multi-Purpose Special Fund (Note B)		26,618,349	
Capital for ordinary operations		513,070,679	
Ordinary Reserve (Note C)		31,192,335	
Net income for the year ended 31 December 1972 (To be allocated by the Board of Governors) (Note G)		11,184,473	555,447,487
TOTAL			$1,252,396,079

The accompanying notes to financial statements (Appendix VIII) are an integral part of this statement.

Treasury Department

APPENDIX II

ASIAN DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
COMPARATIVE STATEMENT OF INCOME AND EXPENSES
For the years ended 31 December 1972 and 31 December 1971
Expressed in United States Dollars (Note A)

	1972	1971
INCOME		
From investments	$ 24,846,359	$ 21,818,529
From loan operations		
Interest	5,408,744	2,207,816
Commissions	973,498	375,268
Commitment charge	1,880,873	1,309,115
From other sources	261,789	182,779
GROSS INCOME	33,371,263	25,893,507
Deduct commissions appropriated to Special Reserve (Note E)	973,498	375,268
UNAPPROPRIATED INCOME	32,397,765	25,518,239
EXPENSES		
Administrative expenses		
Board of Governors	144,602	56,875
Board of Directors		
Salaries	607,163	519,630
Benefits (Note H)	130,347	97,776
Travel	140,424	189,291
Staff services	57,640	43,153
Total Board of Directors	935,574	849,850
Staff		
Salaries	4,163,836	3,322,906
Benefits (Note H)	1,164,621	887,164
Travel	1,177,460	1,060,681
Consultants	159,997	114,816
Representation	41,772	38,628
Total Staff	6,707,686	5,424,195
Other administrative expenses		
Communications	354,546	288,848
Office occupancy	170,328	136,573
Publications and printing	144,284	92,585
Expendable supplies	152,031	126,827
Furniture and equipment	551,935	152,515
Fees and compensation	288,978	225,705
Miscellaneous	101,523	110,409
Total other administrative expenses	1,763,625	1,133,462
Total administrative expenses	9,551,487	7,464,382
Deduct Administration Charge to Special Operations (Note A)	3,945,000	4,766,000
Net administrative expenses	5,606,487	2,698,382
Services to member countries		
Project preparation and other loan-related technical assistance (Note I)	597,059	394,032
Project implementation/advisory	295,396	589,481
Asian Industrial Survey	68,090	-
Asian Vegetable Research and Development Center	150,000	75,000
Regional Transport Survey (Note J)	-	82,571
LAWASIA Credit and Security Research	-	17,355
Other regional activities	53,672	-
Total services to member countries	1,164,217	1,158,439
Financial expenses		
Interest on funded debt	13,843,558	6,741,860
Funded debt issuance and other financial expenses (Note A)	599,030	343,065
Total financial expenses	14,442,588	7,084,925
GROSS EXPENSES	21,213,292	10,941,746
NET INCOME (NOTE G)	$ 11,184,473	$ 14,576,493

The accompanying notes to financial statements (Appendix VIII) are an integral part of this statement.

Treasury Department

APPENDIX III

ASIAN DEVELOPMENT BANK - ORDINARY CAPITAL RESOURCES
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Years Ended 31 December 1972 and 31 December 1971
Expressed in United States Dollars (Note A)

	1972	1971
FUNDS WERE PROVIDED BY		
Operations		
Net income	$ 11,184,473	$ 14,576,493
Items not requiring or providing funds	(7,249,126)	(3,490,885)
Funds provided by operations	3,935,347	11,085,608
Funded debt issued	54,173,449	119,144,847
Increase in funded debt as a result of currency revaluations	15,130,251	-
Capital subscriptions collected	2,045,029	2,369,000
Increase in capital subscriptions collected as a result of devaluation of the United States Dollar	40,159,521	-
Demand obligations of members encashed	42,539,865	1,538,977
Loans sold	1,555,000	1,824,000
Loans collected	2,695,047	537,108
Increase in other liabilities as a result of currency revaluations	2,410,643	
Other - net	-	616,171
Total	164,644,152	137,115,711
FUNDS WERE UTILIZED FOR		
Net charge to ordinary reserve as a result of devaluation of the United States Dollar	5,769,477	-
Loans disbursed	51,090,149	42,920,180
Set-Aside Resources transferred	-	23,840,783
Increase in loans disbursed and outstanding as a result of currency revaluations	5,879,625	-
Funded debt purchased for redemption funds	619,460	543,030
Increase in other assets as a result of currency revaluations	19,972,248	-
Other - net	309,739	-
Total	83,640,698	67,303,993
INCREASE IN CASH IN BANKS AND INVESTMENTS	$ 81,003,454	$ 69,811,718
INCREASE (DECREASE) IN COMPONENTS OF FUNDS		
Cash in banks (excluding Special Reserve Fund cash)	($ 263,578)	$ 318,534
Investments (excluding accrued interest and Special Reserve Fund investments)	81,267,032	69,493,184
Total	$ 81,003,454	$ 69,811,718

The accompanying notes to financial statements (Appendix VIII) are an integral part of this statement.

Treasury Department

ASIAN DEVELOPMENT BANK - SPECIAL FUNDS RESOURCES
BALANCE SHEET
31 December 1972
Expressed in United States Dollars (Note 2)

	Technical Assistance Special Fund (Note 3)		Agricultural Special Fund (Note 4)		Multi-Purpose Special Fund (Note 5)		Total (Consolidated Special Funds)	
ASSETS								
CASH IN BANKS		$ 871,920		$ 752,992		$ 2,910,046		$ 4,534,958
INVESTMENTS								
Government obligations - amortized cost (Face amount $ 9,226,458)	$ 4,641,755		$ -		$ 4,550,770		$ 9,192,525	
Time deposits and certificates of deposit	-		-		26,817,328		26,817,328	
Accrued interest	-	4,641,755	-	-	597,177	31,965,275	597,177	36,607,030
NOTES OF CONTRIBUTOR								
Non-negotiable, non-interest-bearing notes		-		12,974,026		97,887,103		110,861,129
EFFECTIVE LOANS (See Appendix E) [Note 2(d)]		-		24,624,567		101,318,011		125,942,578
RESOURCES AVAILABLE								
Contributed Resources (See Appendix F)								
Amounts made available	9,890,604		24,624,567		157,330,705		191,845,876	
Less amounts drawn	9,292,059		23,690,459		112,033,509		145,016,027	
Accrued Resources [Note 5(1)]		598,545		934,108		45,297,196		46,829,849
						70,995		70,995
OTHER ASSETS		138,007		72,966		236,694		447,667
TOTAL		$ 6,250,227		$ 39,358,639		$279,685,320		$325,294,186
LIABILITIES, UNEXPENDED BALANCES AND CAPITAL								
ACCOUNTS PAYABLE		$ 785,123		$ 76,314		$ 1,961		$ 863,398
ADMINISTRATION CHARGE PAYABLE TO ORDINARY CAPITAL RESOURCES [Note 2(e)]		-		-		8,711,000		8,711,000
UNDISBURSED BALANCE OF EFFECTIVE LOANS (See Appendix E)		-		14,465,374		92,632,518		107,097,892
UNEXPENDED BALANCES AND CAPITAL								
Contributed Resources (See Appendix F)								
Contributions committed [Note 2(c)]	$ 9,921,423		$ 24,624,567		$171,239,937		$205,785,927	
Less amounts not yet made available	30,819		-		13,909,232		13,940,051	
Amounts made available	9,890,604		24,624,567		157,330,705		191,845,876	
Set-Aside Resources (See Appendix G) [Note 5(1)]								
Capital set aside and transferred					26,618,349		26,618,349	
Accumulated net income (expense) (See Appendix C)								
Contributed Resources	(4,425,500)		192,384		301,233		(3,931,883)	
Accrued Resources [Note 5(3)]								
Other income transferred from Contributed and Set-Aside Resources					2,669,590		2,669,590	
Service fee less administrative expenses					(8,580,036)		(8,580,036)	
	(4,425,500)	5,465,104	192,384	24,816,931	(5,609,213)	178,339,841	(9,842,329)	208,621,896
TOTAL		$ 6,250,227		$ 39,358,639		$279,685,320		$325,294,186

The accompanying notes to financial statements (Appendix H) are an integral part of this statement.

Treasury Department

ASIAN DEVELOPMENT BANK - SPECIAL FUNDS RESOURCES
COMPARATIVE STATEMENT OF INCOME AND EXPENSES
For the Years Ended 31 December 1972 and 31 December 1971
Expressed in United States Dollars (Note 2)

	Technical Assistance Special Fund		Agricultural Special Fund		Multi-Purpose Special Fund			Total	
	1972	1971	1972	1971	Contributed Resources	Set-Aside Resources	Accrued Resources	1972	1971
INCOME									
From investments	$ 132,773	$ 58,541	$ -	$ -	$ 218,920	$ 1,469,873	$ -	$ 1,688,793	$ 1,006,954
From loans	-	-	119,901	54,029	51,546	31,781	-	83,327	23,527
Interest	-	-	50,474	18,377	30,969	16,461	-	47,430	14,484
Service fee	-	-	-	-	13,413	148,683	-	162,096	150
From other sources	98,805	3,555	16,129	-					
GROSS INCOME	231,578	62,096	186,504	72,406	314,848	1,666,798	-	1,981,646	1,045,115
Service fee less depository banks charges allocated to Accrued Resources	-	-	(50,262)	(18,146)	(30,329)	(15,357)	95,948	50,262	18,146
UNALLOCATED GROSS INCOME	231,578	62,096	136,242	54,260	284,519	1,651,441	95,948	2,031,908	1,063,261
EXPENSES									
Administrative expenses									
Project appraisal and other field missions - Consultants	93,354	137,731	-	-	-	-	-	-	-
Other administrative expenses -									
Consultants - Headquarters	48,626	-	-	-	-	-	-	-	-
Administration Charge [Note 2(e)]	-	-	-	-	-	-	3,945,000	3,945,000	4,766,000
Depository banks charges	158	108	212	231	640	1,104	-	1,744	686
Others	800	-	-	-	-	-	-	-	-
Total	142,938	137,839	212	231	640	1,104	3,945,000	3,946,744	4,766,686
Services to member countries									
Project preparation missions and other loan-related technical assistance - Consultants	986,389	675,872	-	-	-	-	-	-	-
Project implementation/advisory - Consultants	204,484	290,756	-	-	-	-	-	-	-
Regional activities - Consultants	60,182	59,087	-	-	-	-	-	-	-
Total	1,251,055	1,025,715	-	-	-	-	-	-	-
GROSS EXPENSES	1,393,993	1,163,554	212	231	640	1,104	3,945,000	3,946,744	4,766,686
NET INCOME (EXPENSE)	($ 1,162,415)	($ 1,101,458)	$ 136,030	$ 54,029	$ 283,879	$ 1,650,337	($ 3,849,052)	($ 1,914,836)	($ 3,703,425)

The accompanying notes to financial statements (Appendix H) are an integral part of this statement.

ASIAN DEVELOPMENT BANK - SPECIAL FUNDS RESOURCES
AGRICULTURAL SPECIAL FUND (Note 4)
BALANCE SHEET
31 December 1972
Expressed in United States Dollars (Note 2)

A S S E T S	Denmark	Japan	Netherlands	Unallocated a/	T o t a l
CASH IN BANKS	$ 2,065	$ 655,567	$ 95,360	$ -	$ 752,992
NOTES OF CONTRIBUTOR					
Non-negotiable, non-interest-bearing notes	-	12,974,026	-	-	12,974,026
EFFECTIVE LOANS /Note 2(d)/	13,270	9,937,633	208,390	14,465,274	24,624,567
RESOURCES AVAILABLE					
Contributed Resources (See Appendix F)	-	-	934,108	-	934,108
OTHER ASSETS	81	70,848	2,017	-	72,946
T O T A L	$15,416	$23,638,074	$1,239,875	$14,465,274	$39,358,639
LIABILITIES AND UNEXPENDED BALANCES					
ACCOUNTS PAYABLE	$ 252	$ 68,967	$ 7,095	$ -	$ 76,314
UNDISBURSED BALANCE OF EFFECTIVE LOANS	-	100	-	14,465,274	14,465,374
UNEXPENDED BALANCES					
Contributed Resources (See Appendix F)					
Amounts made available	15,164	23,376,623	1,232,780	-	24,624,567
Accumulated net income (See Appendix C)	-	192,384	-	-	192,384
T O T A L	$15,416	$23,638,074	$1,239,875	$14,465,274	$39,358,639

The accompanying notes to financial statements (Appendix M) are an integral part of this statement.

a/ The unallocated amount will be allocated to specific contributions as and when procurement contracts have been awarded. The loans may also be financed from the Multi-Purpose Special Fund.

Treasury Department

ASIAN DEVELOPMENT BANK - SPECIAL FUNDS RESOURCES
MULTI-PURPOSE SPECIAL FUND (Note 5)
BALANCE SHEET
31 December 1972
Expressed in United States Dollars (Note 2)

	Contributed Resources								Set-Aside Resources	Accrued Resources	Unallocated a/ and (Eliminations) b/		Total
	Australia	Canada	Denmark	Germany, Federal Republic of	Japan	Netherlands	New Zealand	United Kingdom					
ASSETS													
CASH IN BANKS	$ 2,110	$ 315,030	$ 2,148,997	$ 23,742	$ 111,647	$ 16,502	$ -	$ 9,732	$ 282,284	$ -	$ -		$ 2,910,046
INVESTMENTS													
Government obligations - amortized cost (Face amount $ 4,571,263)	-	-	-	-	-	-	-	-	4,550,770			$ 4,550,770	
Time deposits and certificates of deposit	-	-	-	6,394,195	-	-	-	-	20,423,133			26,817,328	
Accrued interest	-	-	-	102,382	-	-	-	-	494,795			597,177	31,965,275
	-	-	-	6,496,577	-	-	-	-	25,468,698				
NOTES OF CONTRIBUTOR													
Non-negotiable, non-interest-bearing notes	6,426,064	-	-	-	91,461,039	-	-						97,887,103
EFFECTIVE LOANS [Note 2(d)]	972,685	430,168	-	1,548,410	1,954,332	12,705	-	394,117	3,373,076		92,632,518		101,318,011
RESOURCES AVAILABLE													
Contributed Resources (See Appendix F)	3,699,761	26,709,778	-	-	-	1,203,810	-	13,683,847					45,297,196
Accrued Resources [Note 5(1)]										2,800,554	(2,729,559)		70,995
OTHER ASSETS	17,723	4,356	-	9,947	13,989	5,412	-	7,489	196,742		(18,964)		236,694
TOTAL	$11,118,343	$27,459,332	$ 2,148,997	$ 8,078,676	$93,541,007	$ 1,238,429	$ -	$14,095,185	$29,320,802	$ 2,800,554	$89,883,995		$279,685,320
LIABILITIES, UNEXPENDED BALANCES AND CAPITAL													
ACCOUNTS PAYABLE	$ 8,239	$ 16,407	$ -	$ 7,221	$ 12,375	$ 109	$ -	$ 3,779	$ 2,702,453	$ -	($ 2,748,583)		$ 1,961
ADMINISTRATION CHARGE PAYABLE TO ORDINARY CAPITAL RESOURCES [Note 2(e)]										8,711,000			8,711,000
UNDISBURSED BALANCE OF EFFECTIVE LOANS											92,632,518		92,632,518
UNEXPENDED BALANCES AND CAPITAL													
Contributed Resources (See Appendix F)													
Amounts made available	11,099,284	27,442,925	2,148,997	7,820,016	93,506,493	1,232,780	-	14,080,710					157,330,705
Set-Aside Resources (See Appendix G) [Note 5(1)]													
Capital set aside and transferred									26,818,349				26,818,349
Accumulated net income (expense) (See Appendix C)													
Contributed Resources	10,820	-	-	251,439	22,238	5,540	-	11,196				$ 301,233	
Accrued Resources [Note 5(1)]													
Other income transferred from Contributed and Set-Aside Resources										2,869,590		2,869,590	
Service fee less administrative expenses	-	-	-	-	-	-	-	-	-	(8,580,036)		(8,580,036)	(5,609,213)
TOTAL	$11,118,343	$27,459,332	$ 2,148,997	$ 8,078,676	$93,541,007	$ 1,238,429	$ -	$14,095,185	$29,320,802	$ 2,800,554	$89,883,995		$279,685,320

a/ The unallocated amount will be allocated to specific resources as and when procurement contracts have been awarded. The loans may also be financed from the Agricultural Special Fund.

b/ The eliminations represent offsetting amounts due to and due from resources within the Multi-Purpose Special Fund.

The accompanying notes to financial statements (Appendix H) are an integral part of this statement.

Treasury Department

Mr. PASSMAN. Under the rules of the committee each member is allotted 5 minutes for questions and answers and after we have gone around the table then we return to the members so they may consume as much time as necessary to ask all their questions and get the answers. At this time I yield to the distinguished gentleman from Kansas, Mr. Shriver, under the 5-minute rule.

MR. BEACH'S BIOGRAPHICAL RÉSUMÉ

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. Beach, I want to welcome you as a native Kansan to these hearings.

Mr. BEACH. Thank you.

Mr. SHRIVER. I offer my best wishes on your nomination as U.S. Director of the Asian Development Bank.

Mr. BEACH. Thank you.

Mr. SHRIVER. Do you have a résumé of your background?

Mr. BEACH. I will submit that for the record.

Mr. PASSMAN. We will have it inserted in the record at this point.

[The biographical résumé follows:]

BIOGRAPHICAL SKETCH

Name: Paul Rex Beach.

Title: U.S. Director, Asian Development Bank.

Personal data: Born: Kansas City, Mo., January 31, 1939; married, three children; permanent home address: 1103 Sharon Court, McLean, Va. 22101.

Education: B.A., Kansas State University, 1962 (economics); M.A.; Johns Hopkins University, 1964 (international relations); Ph. D., Brown University, 1970 (economics).

Career summary: Legislative assistant to Senator James B. Pearson, 1963–65; assistant professor of economics, Arizona State University, 1968–69; Deputy Assistant to the Secretary of the Treasury, July 1969 to February 1970; Acting Assistant to the Secretary, February 1970 to July 1970; Assistant to the Secretary, July 1970 to February 1971; Special Assistant to Ambassador at Large David M. Kennedy, February 1971 to September 1972; alternate U.S. Director, Asian Development Bank, September 1972 to May 1973; Nominated to be U.S. Director, Asian Development Bank, May 1973.

Professional and civic activities: American Economic Association.

1973 ANNUAL MEETING OF ADB

Mr. SHRIVER. I understand that you recently attended the Asian Development Bank annual meeting. I think the committee would be interested in your, or Mr. Hennessy's, impression of the meetings, especially in light of certain concerns like procurement, staffing, and Bank leadership which the committee has raised in the past. So will one or both of you comment on those things for us?

Mr. HENNESSY. I might make one general comment on that, Mr. Shriver.

I think we went out to that meeting having very much in mind some of the things that we have discussed in this committee, and particularly some of the shortcomings of the Bank as we and the committee saw them.

They have a new president. He lived and worked in the United States for some 6 years. I think we have a gentleman who understands our system and how it works very much. We had a five-man congres-

sional delegation with us and Mr. Inoue took the time to explain what he hoped to do with the Bank.

We addressed in a frank session some of the problems. We went over procurement, the question of independent audit type mechanisms, the staffing question, the organization of the Bank, the level of influence of the United States. I think we have made progress, the results of which will be showing up over time.

First of all, in procurement I think he heard what we said. I would like to submit for the record our official governor's statement at that meeting.

UNDER SECRETARY VOLCKER'S STATEMENT

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

[The information follows:]

STATEMENT BY THE HONORABLE PAUL A. VOLCKER BEFORE THE SIXTH ANNUAL MEETING OF THE BOARD OF GOVERNORS, THE ASIAN DEVELOPMENT BANK, MANILA, THE PHILIPPINES, THURSDAY, APRIL 26, 1973

Mr. President, fellow Governors, and distinguished guests:

I want to speak with you today primarily about some of the opportunities and problems we face together as we approach the future of this Bank, of this region, and of the millions of people who inhabit this vast and important area of the globe. Before doing so, however, I first take special pleasure in officially greeting our new President, Shiro Inoue. I know all of us who have worked with him in other areas in the past share confidence in his leadership—a leadership essential to the success of our joint effort.

I also want to welcome the Solomon Islands as the 39th member of the Asian Development Bank and the prospective entry of Burma. In a real sense, their entry both marks the forward progress of our institution, and represents the continuing challenge of economic development.

I would add the thanks of my Government to the people of the Philippines for their hospitality, and especially for the faith and confidence in the Bank they have demonstrated so tangibly. In a striking way, this impressive building symbolizes the coming of age of the Asian Development Bank, and the important responsibility it has assumed as a permanent catalyst for Asian development.

I am also pleased that five Members of the American Congress have accompanied me to Manila as advisers. The participation of the United States in this institution is, and must be, a joint enterprise in which the Congress and the Executive work together as partners. For that reason, I am glad that we also had the opportunity to pause in Korea together to view firsthand some of the early results of the Bank's efforts to finance development.

The Governor for the United States, Secretary of the Treasury George Shultz, regrets that he cannot be with you this week. On his behalf, I extend the best wishes of President Nixon, as well as his own, to the members and to the management of the Bank.

We meet at a critical time, not just for this Bank and for the development of Asia, but for the economic system of the world as a whole. We have seen repeated and widespread monetary disturbances in recent years. Points of strain and tension have arisen in trading relationships among nations. New questions have arisen about the development process and means of financing it.

Problems of this sort are never welcome. But let us recognize that they are a part—perhaps an inevitable part—of the process of vast change in the world economy since our basic trading and monetary institutions were shaped at the end of World War II, almost 30 years ago.

Certainly, most of these changes—viewed in a world perspective—have been for the better. Economic strength and power is more widely distributed among the industrialized countries. Individually, more of the developing countries have made particularly rapid strides in improving their standard of living. As a group, they are more conscious of their needs and their opportunities, and better prepared to play an effective role in the decisionmaking process.

The challenge is not to resist this process of change. Rather, we want to re-

examine our practices and reconstruct our institutions in a manner that will insure that change serves our common interest in economic prosperity and political harmony.

In this process, it is vital that the developed and developing nations work together. For that reason, we in the United States have welcomed the participation of the developing countries of Asia, as well as other continents, in the work of the Committee of 20. Similarly, we also recognize that constructive revision of our trading practices and rules must strike a fair balance between the legitimate interests of individual nations—including the developing nations—and the need for a common and cooperative approach.

It is in that spirit that President Nixon has proposed to the Congress broad new authority for trade negotiations. The fundamental premise of that legislation is that every nation can and should benefit from expanding trade and open trading practices within the basic framework of a competitive market system. But that "openness" must also be combined with fairness for all nations.

The President has requested authority of unprecedented scope to engage in multilateral trade negotiations. This authority would include—and look toward—reductions in both tariff and nontariff barriers.

At the same time, the legislation would recognize that open markets and free trade can, in some instances, bring change with disruptive speed. The United States, like other countries, needs effective safeguards when surges in imports bring excessive hardship to domestic workers and businesses. We believe such safeguards—designed not to avoid adjustment but to ease adjustment for a transitional period—can most effectively be worked out on a consistent multilateral basis.

Our proposed legislation also recognizes that progress in reducing trade barriers for the United States can be sustainable only in a context of a perception that our own products receive fair and nondiscriminatory treatment by others. For that reason, our proposed legislation would provide improved authority to respond effectively to restrictive and discriminatory practices of others—if necessary, by restricting their access to our markets.

Another significant provision of the bill would permit the United States to join with other industrialized countries to improve the access of developing countries to our markets. Duty-free treatment would be provided for a broad range of manufactured products now regulated by tariffs in instances where countries in the early stages of industrializaton are beginning to seek out foreign markets.

As we start this sixth annual meeting and plan for the new year, a challenge for our devlopment efforts—and particularly for the Asian Development Bank—is evident. The hopeful prospects for peace in Indochina should open the way to improvement in the lot of millions who have not known peace for decades. Here is constructive work, not only for the nations represented here, but for all countries and peoples ready to cooperate.

But the effort will not organize itself. We believe the Bank—founded by Asians, with a mandate to help Asia—can and should play a key role in the needed international effort. We look to the Bank to work with other institutions and to involve diverse donor nations in the process of rebuilding the economies of those countries of Indochina who seek an end to hostilities.

The Bank, in fact, has already identified specific projects in Laos, the Khmer Republic and the Republic of Vietnam, and committed funds for them. Other projects are in the pipeline and should be ready for consideration later this year.

The study of Southeast Asian economies and the regional transportation survey sponsored by the Bank show the breadth of its field of activities. Its expertise should aid all who may become involved in the effort to build for peace.

Historically, the United States has long been involved in efforts to bring stability and economic progress to Asia. We have important political and economic relationships which tie us closely to this part of the globe and its energetic and proud people. We intend to maintain those ties, not least by cooperating in the efforts, symbolized by the Asian Development Bank, to build strong economies.

Having said that much, it is obvious that, if the Bank is to play its part in furthering the development process, it must be adequately funded. In that respect, pointed and legitimate questions can be directed at the United States. I owe you a full and frank exposition of our position.

Obviously, as with all nations, the ability of the United States to support development finance institutions at any point in time depends on our total

economic and financial situation. Budgetary priorities and balance-of-payments considerations apply to my country as well as to yours. And, unlike many other countries, this question of priorities is subject to independent executive and congressional review—essentially, funding requests must pass a double hurdle.

At home, the total budget has been under rigorous restraint because of inflationary problems. We have made substantial cutbacks in budgetary allocations from earlier projections for a number of domestic programs. We are not able to meet all the vast demands for added expenditures for such purposes as controlling pollution, rebuilding decaying cities, or assisting the poorer American citizen—of whom there are still far too many.

At the same time, when the dollar has been under recurrent attack in world markets, the urgency of restraining overseas spending to help deal with our balance-of-payments problem is obvious.

Faced with this situation, I sometimes hear persons in less developed countries say that the United States is a big and strong country; it has had a balance-of-payments deficit for years; it should not worry about its balance of payments now. But we are concerned—and we must be. Weakness of the dollar and monetary instability is not in our interest or yours. The time has long since come to end the deficits that underlie that weakness. We have moved to do so primarily by achieving exchange rate and trading relationships that permit us to compete effectively. But, as part of the process, no foreign expenditure can expect to escape searching review.

I would emphasize that the President, in assessing these budgetary and balance-of-payments constraints, feels strongly that our past pledges of funds to the Asian Development Bank deserve priority. The appropriation from the Congress for the long-delayed $100 million contribution to the special funds remains high on our agenda. We are also requesting from the Congress authority to provide $362 million of ordinary capital over a 3-year period—an amount that would restore our previous relationship among the Bank's members.

We will continue to press for those funds. Nevertheless, I must tell you bluntly that the congressional prospects—as Congress independently examines the priorities—remain uncertain. We can be optimistic only by demonstrating effectively this Bank's crucial role in building stronger economies in Asia—and thus in contributing to a peaceful world.

In this connection, I am gratified by the evidence that, in the past year, the Bank has further increased its effectiveness—working with more member countries, providing more needed expert technical assistance and, not least, financing more projects.

At the same time, I must be equally candid in saying that, as part of the process of defending budgetary priority for the Bank and assuring future support, we must look toward improvement in certain operational matters. In that connection, we have upon a number of occasions cited our concern about the low procurement share U.S. firms have received from ADB-financed projects—low in terms of absolute volume, low in terms of relative share, and low in trend.

Whatever the reason, this is a situation incompatible with strong legislative support. I do not say that the situation reflects either deliberate or inadvertent Bank policy—the evidence I have seen is to the contrary. Rather, it was partly a symptom of exchange rates that were out of line. Moreover, in many instances, U.S. business may not have been sufficiently aggressive in seeking out the opportunities across the broad Pacific. Perhaps, we, in Government, have not been active enough in assuring that information about projects and contracts is widely disseminated.

We have now taken steps to repair those deficiencies within our control. We hope and expect to see improved results. We must do so to end what has become a very difficult situation in obtaining legislative and public support.

In this same spirit of candor, allow me to urge that the time has come for the Bank to establish a capacity for independent evaluation of the efficiency and effectiveness with which its funds have been utilized. With eight projects finished—and others nearly so—we are in a position for the first time to raise—and to answer—legitimate questions about the fruits of the Bank's efforts.

After some hesitation, the World Bank and the Inter-American Development Bank have each adopted such "postaudit" mechanisms and procedures. This approach can go a long way toward maintaining the full confidence of donor governments. With experience, management, itself, has come to see the benefits from objective evaluation of their work. In the long run, I believe, recipient countries can only gain as well.

Finally, after 6 years of operations, a review of the Bank's organization and its procedures is timely. We hope the management and the executive board will initiate such an effort in the next year.

None of these comments in any sense call into question the excellent job the Bank management has done. It simply means that enough time has passed, and enough experience has been gained, to permit constructive review. Our procedures and methods should be changed to meet current needs in the most effective way.

The world economy has changed in many ways. Over the years since World War II, other industrialized nations have grown into economic strength and stability, able to carry a larger share of the responsibility for advancing the development of others. Some poorer countries have made enormous strides toward self-confidence—while others plainly require a lift from abroad to help break a vicious cycle of poverty, inefficiency, and dependence. Not least are the fresh opportunities and challenge provided by the prospect of peace in Indochina.

All these external changes find their reflection in the internal work of the Asian Development Bank. We press for change within the Bank in a constructive spirit, as we press at home to provide an appropriate share of the resources the Bank requires. Let there be no doubt—we remain committed to the Bank and to the purposes for which it stands.

Thank you.

U.S. PROCUREMENT SHARE

Mr. HENNESSY. We discussed the fact that the United States could not support an institution where our procurement share was so low and we had done research of our own and had not found any bias or discrimination but we did hope that the Bank would take another look at their procedures and go back over this entire matter to insure that our suppliers were getting a fair shake.

I think by and large we are pretty well satisfied that changes in exchange rates have changed the competitive position of our suppliers out there and after talking with businessmen on this trip I think we have the idea that American business feels that they can now compete with the Japanese and others.

Mr. Inoue promised to look into the question of an independent audit system that GAO has suggested. They agreed to look at the reorganization of the Bank, questions of staffing, questions of the budget, representation allowance, and so forth.

I think we will find a very positive response from this particular gentleman.

I think in broad terms we have a responsive person to the particular concerns of this committee.

I do not know if Mr. Beach has any additional comments he wishes to make on this point.

Mr. BEACH. I might underline the importance we attach to the procurement issue.

We have spent a considerable period of time looking at procurement itself. We are convinced to our own satisfaction that there is nothing in the Bank's regulations or provisions that necessarily biases Bank procurement against U.S. business interests.

We looked into this very, very carefully. I think the point to be made there is that the Japanese have been extremely effective in beating us on price competition.

We have had two devaluations of the dollar, and they amounted to a 35-percent realinement against the Japanese yen, and that should make a considerable difference.

We are very, very effective in the field of consultants. In more than 50 percent of the cases where a bank borrower selects a consultant, he

selects American consultants. This is done on the basis of the technical proposal, and then afterward the price is negotiated.

In short, the lack of price competition on our part has been a big factor.

Mr. SHRIVER. My 5 minutes is up. I will come back a little later.

Mr. PASSMAN. Thank you, Mr. Shriver.

I will yield 5 minutes to Mr. Bevill.

Mr. BEVILL. Mr. Chairman, I have no questions at this time.

Mr. PASSMAN. Mr. Conte.

QUALITY OF ADB PROJECTS

Mr. CONTE. Yes, Mr. Chairman.

Mr. Secretary, in Korea I had an opportunity to look at several ADB-financed projects. I saw the Seoul-Inchon Expressway, the Korean Development Bank, a project for a sugar processing plant, and a frozen food storage facility. In general, I was impressed with the quality of the projects. I wonder if there are other ADB projects that are of similar high quality as the ones I saw in Korea.

Mr. HENNESSY. I think Rex, who has been in the area, can probably answer in more specific detail than I can. In general from knowledge of the projects I myself visited and those that the Inspector General from the Treasury Department has visited, we have been impressed with the quality of the projects.

Korea has been particularly good as a country and received a high proportion of the bank loans because they are able to implement the projects well.

This Bank started slowly. In fact, people were worried that it might have started too slowly. Part of the reason was that they gave a good deal of attention at the beginning to doing things right. I would say, yes, I think the Korean projects are typical of the types of things they are doing in the area.

Mr. CONTE. Where are the bulk of the ADB projects located?

Mr. BEACH. In the field of ordinary caiptal; that is, hard loans, we have something like $725 million in cumulative loans; $197 million is in Korea, which is the Bank's largest borrower. We have had $100 million in Taiwan, $135 million in the Philippines, $75 million in Thailand and another $75 million in Pakistan. I think it is very important to point to this geographical distribution because it is the end product of the bank that counts.

Something like 63 percent of all of our hard window loans have gone to countries of considerable importance to the United States. I think the money has gone to the right place and right groups.

Mr. CONTE. I was tremendously impressed by what the Koreans were doing with these loans and the methods of building that we saw and the machinery.

Incidentally, Mr. Chairman, in the sugar processing plant that I visited, the big vats came from Louisiana. I asked them if you had anything to do with it, and they said no, you had not been there yet.

Mr. PASSMAN. Thank you, Mr. Conte.

We will take a brief recess to vote and then return.

[Recess.]

Mr. PASSMAN. The committe will come to order.

I yield 5 minutes to the distinguished gentleman from Maryland, Mr. Long.

Mr. LONG. Thank you, my distinguished Chairman.

If the Congress required the GAO to audit and evaluate directly the Asian Development Bank and other international financial institutions, what problems would this cause in your view?

Mr. HENNESSY. It would cause, Mr. Congressman, some very grave problems.

The GAO themselves have not asked for that authority. What they have asked is that independent evaluation units be set up in each bank which would serve as an independent evaluation group or unit within the organization. They realize the complications which would exist if each one of the member countries, and in the case of the Asian Bank there are 40 members, sent in their own GAO's, and that the best solution they have in their wisdom seen to propose is these independent audit organizations.

It is one of the things we have been pushing on. And I think with the new president, Mr. Inoue, there is a mechanism there that will provide an independent flow of information to the Congress and the GAO and us.

Mr. LONG. Isn't this a strawman, really?

In the first place we give a large part of the funds to the ADB. The second point is that very few of these countries would, as a practical matter, ask for their own audit, have their own GAO's and would be unlikely therefore to put that kind of burden on the Asian Development Bank.

Mr. HENNESSY. On that particular point, I think most of the other developed countries would be forced to follow suit.

The United Kingdom has a similar audit type of provision on the use of their own funds.

So I am not sure that what you say is true. In this particular case we do not put in the lion's share. We put in zero percent of the soft funds and 8 percent of the hard funds. We have dropped our contribution to below the floor level. The design of the independent IDB group was carried out with the full knowledge and help of the GAO. The members of the IDB group are hired by the Board and not the Bank management.

They report to the Board which pays their salaries and chooses them. That gives you an independence you do not get if you are part of the staff.

Mr. LONG. Would such an audit requirement violate any international treaties which the United States has signed?

Mr. HENNESSY. I am not sure it would violate any treaty but it would need the agreement of the other signatories of the charter.

Mr. LONG. In 1967 the Selden amendment to the Inter-American Development Bank directed the U.S. Executive Director of the IDB to propose an independent review. The GAO was directed to review the reports issued.

What did the review reveal? Was the report sufficiently informative for an adequate review?

Mr. HENNESSY. In the IDB case?

Mr. LONG. Yes.

Mr. HENNESSY. I think the first GAO report said the review was

very slow in getting started. When it did get started the GAO report said it showed a lack of expertise, but the last GAO report said the group is now producing high quality work and it is fulfilling the function for which it was set up.

Mr. LONG. Did this initiative taken by Congress cause any problems with our relations with the other countries?

Mr. HENNESSY. In the Selden amendment?

Mr. LONG. Yes.

Mr. HENNESSEY. At the beginning there was an initial reaction against it. Eventually it was set up and it has since proved, in my own view, to be a successful way of dealing with it.

In the IDB we do put in the lion's share of the resources and we have a much bigger club, if you want to call it that, than we do in the ADB, where we put in relatively little.

We find an increasing appreciation in all of the countries of the need for an independent appraisal. The Congressmen who were out in Asia with us told their points of view very clearly to Bank management people in the other member countries.

Mr. LONG. Are you satisfied that, without an independent GAO audit, that they are cooperating with GAO and giving them all the information they are giving you folks.

Mr. HENNESSY. I think there is a distinction in having an independent unit which provides us information which we in turn provide it to the GAO.

There have been, in the past, some differences of opinion between us and the GAO. It goes to the question of confidentiality of minutes of Board meetings and Bank meetings. We have been working these out over time.

Mr. LONG. Do you think there will be any lasting objection to having the information go to GAO at about the same time it goes to you folks, but nevertheless that it goes directly?

Mr. HENNESSY. I think as long as it is clear we are the implementers of the policy and the supervision of the use of the funds is in the Congress and we do not get our roles mixed up we will be able to work this out.

Mr. PASSMAN. It is always painful to have to interrupt Dr. Long because he is such a terrific interrogator and his questions are interesting but the 5 minutes have expired.

Mr. LONG. Mr. Chairman, I will have a lot of questions later on.

Mr. ROUSH. I have no questions.

Mr. PASSMAN. Mr. Yates, I yield to you 5 minutes to examine on the Asian Development Bank.

COMPOSITION OF ADB STAFF

Mr. YATES. Thank you very much, Mr. Chairman.

I note from the statement of Mr. Beach that the following appears: One, that Mr. Inoue has succeeded as President of the ADB, and it is said that the U.S. nationals are occupying policy positions within the Bank. The General Counsel is American, which is especially important since members of this staff take part in every loan mission and negotiation. The chief economist is American, and so forth. How many of the Board of Directors are American?

Mr. BEACH. We have 12 members of the Board of Directors, and 1 of those members is an American.

Mr. YATES. How many are Japanese?

Mr. BEACH. One.

Mr. YATES. Do any of the countries have more than one member?

Mr. BEACH. No. There are currently four countries which control both the director position and the alternate director position. We are one of the four. We name the director and the alternate.

Japan does the same. India does the same. Australia also names both a director and alternate.

Mr. HENNESSY. The difference between these banks and the U.N. and some other agencies is that we have a weighted voting system. So when Mr. Beach votes, he casts the accumulated share of the United States. In this bank we have 8 percent of the votes, which represents 9 percent of the hard capital.

One of the proposals before you is to return our equity share to the 19 percent that it was previously. We have not picked up our share of the last replenishment which other member countries have.

If you approve the appropriation for our share of the ordinary capital increase he will be voting with 16 percent of the total as opposed to the percent 8 percent.

Mr. PASSMAN. If the gentleman will yield, this is not an international commitment where you have to abide by any previous authorization.

Mr. HENNESSY. You are right. Because of what you asked last year we made no new international commitments.

SUBSCRIPTION SHARES

Mr. YATES. We have an 8 percent share. What's the Japanese share?

Mr. BEACH. The Japanese share of contributions is somewhat over 20 at this stage. We started out at parity with Japan with ordinary capital at about 19 percent of the actual capital contribuion and 16.54 of the vote. Both countries had that. There was a capital increase which became effective November 1972.

Japan subscribed to that increase and their voting share has increased to the point now where they have an actual voting share of slightly under 20 percent. Ours is down I think at this time to 7.8 percent.

Mr. YATES. What is the advantage in the operation of the Bank in having a greater or less voting share?

Mr. BEACH. Earlier I said in responding to a question, pointing out the end product of the Bank and where the loans have gone, in my judgment you can make a very strong case that the Bank is serving U.S. interests very well because of the geographical spread of the loans, because they have gone to Korea, Vietnam, Thailand, and so on.

To the extent you do have a sufficient voting strength, you can certainly influence the direction of those loans.

Mr. YATES. Who determines where the loans go?

Mr. BEACH. There is an internal committee in the Bank called the programing committee comprised of the Vice President who chairs it, who is an Indian, the General Counsel (American), the Director of Projects (Taiwanese), the Director of Operations (Australian).

This is more or less the daily guiding committee which looks at all of the various requests that have come into the Bank, and decides who goes to Singapore or Korea to look at a loan project.

If it appears feasible that something may come of an initial inquiry they go ahead with a review mission and appraisal mission and so on.

Mr. HENNESSY. The short answer is the geographic distribution of the loans depends pretty much on the major contributors. They do have their individual loans which are looked at and reviewed one by one as they come along.

Mr. YATES. His answer is not correct then, is it? As it understand his answer to my question, which was who determines where the loans go, he talked about an internal committee being comprised of four countries without a Japanese member on it.

I was under the impression that the Japanese had some influence in this bank.

Mr. HENNESSY. They have a lot of influence.

Mr. PASSMAN. I want to thank the gentleman, he is a good interrogator but his 5 minutes are up.

Mr. YATES. Are you deducting the time I yielded to you?

Mr. PASSMAN. Yes, I deducted a minute and I only consumed 25 seconds.

Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

I want to thank the gentleman for his testimony and I will be going over it in detail.

Mr. YATES. Will the gentleman yield?

Mr. MILLER. I will yield.

Mr. YATES. Had you completed your questioning?

Mr. MILLER. Yes.

Mr. PASSMAN. You finished your questioning and want to return later?

Mr. MILLER. That is correct.

Mr. PASSMAN. Thank you very much.

Mr. Coughlin?

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

Mr. PASSMAN. Mr. Coughlin, do you yield to Mr. Yates for a question?

Mr. YATES. Mr. Chairman, I was under the impression——

Mr. PASSMAN. The gentleman said he had no questions, he would return later.

Mr. YATES. Before he did I asked him to yield.

Mr. PASSMAN. Let us operate on an orderly basis.

Mr. Coughlin, I yield to you.

Mr. COUGHLIN. Thank you, Mr. Chairman.

I have just two short questions.

Mr. YATES. Mr. Coughlin, will you yield for a question?

Mr. COUGHLIN. A brief question.

Mr. YATES. At such time as you finish your two questions, will you yield further to me before you finish your time?

Mr. COUGHLIN. Yes.

Mr. YATES. Thank you.

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PROCUREMENT ELIGIBILITY

Mr. COUGHLIN. On page 3 of the testimony, you indicated the funds of $100 million will be spent for procurement of U.S. goods and services. Has this been the case in the past of all money that has gone to the Bank?

Mr. HENNESSY. We have not put anything into the soft window and this is one of the problems of not getting procurement, because you are not eligible to bid. There are two windows, one is the soft and the other the hard. We have not put any soft funds in. So we are not eligible.

Mr. COUGHLIN. You say that we have been ineligible to bid on special funds. What does that mean?

Mr. HENNESSY. That means that, when the Bank awards a special funds project for a dam or a road, they put it up for international bidding. But U.S. suppliers would not be eligible to bid on that project to supply the tractors, for instance, because the United States has never made a contribution. The Bank has two funds. When they call for bids, they specify the loan at the outset and say, "This is going to be a soft loan," or "This is going to be a hard loan." If it is a soft loan, the U.S. suppliers would not be eligible. They would only be eligible for the market rate loans. There our procurement has been very low.

U.S. INFLUENCE IN ADB

Mr. COUGHLIN. Thank you.

My second question: On page 6 of your testimony you say the leverage the United States has had in these cases has been very high. How do you measure that kind of leverage?

Mr. HENNESSY. I will let Mr. Beach answer part of that but let me say in general terms, you cannot have your cake and eat it, too. The level of influence you have in the institutions is a function of how much money you put in. We try to get maximum influence at minimum cost. If you look at where U.S. foreign economic and policy interests lie, you find that the distribution of ADB loans is very close. We had, for example, a great interest in Korea's recovery and in keeping Taiwan strong. Even in South Vietnam some loans have been made by the Asian Development Bank.

The distribution of the loans is very much in keeping with what we think are key countries that we want to see develop for reasons of economic stability and peace in the world.

You lose leverage to the extent that you withdraw from your international commitments or if you fall below some minimum level of subscription.

We think in the case of this Bank if you go from 16 percent to 8 percent that you have gone below the floor. The Bank is in a critical situation. We are arguing that the United States does have a leadership role. In the past we picked up too much of the buck. Now we are trying to reduce our share and provide a more appropriate proportionate amount. But there is a minimum level which we must provide.

Mr. COUGHLIN. Thank you.

I yield to Mr. Yates.

Mr. YATES. Thank you.

I want to follow up Mr. Coughlin's question and refer to your statement where you say that "currently U.S. firms get 8 percent of the business while Japanese firms receive 56 percent." How can it be said that we are occupying an important place in the operations of the Bank?

Mr. BEACH. If I could, let me break that down into two parts. On the one hand we want to look at what the end product of the Bank is and where the money goes that is to say what projects and what countries.

From this viewpoint, I think here we have a very favorable record. The money goes to the right countries and for the right purposes. The countries are those in which we have a considerable foreign policy interest.

The second aspect of this situation involves who ends up with the business of the bank financed projects. This has been a tremendous concern of ours. The majority of the business has gone to the Japanese for several reasons, the major one being the fact that they have enjoyed a vastly undervalued currency in the past. They have been far more competitive than the United States and most Western European suppliers on a price basis. However, we have gone through a currency realinement which has increased the price of Japanese goods vis-a-vis those of the United States by 35 percent over the past 18 months. This factor alone should make a considerable difference in our ability to compete for the business of the various projects.

U.S. ABILITY TO COMPETE FOR PROCUREMENT

Mr. YATES. Is there an indication of that presently?

Mr. BEACH. I have had in the past 2 months several conversations with business people in Manila and Singapore and the general feeling is that although we have no statistics to prove anything at this stage U.S. business will become far more competitive in the future. They feel they can sense it.

I think this is a very important factor. It means U.S. firms are more aggressive at this stage. In the past they had the feeling that if I am going to get beat by the Japanese, why should I even bid on the project. In their minds, it was a foregone conclusion that the business would go to the Japanese firms. The mentality has been changed now and turned around.

Mr. YATES. You have had several months elapse since the devaluation and shouldn't there be some evidence of that occurring at the present time?

Mr. BEACH. It depends on the various stages of the projects in the pipeline and whether or not we are at the stage of calling for bids on some of these projects. Since we have had the second devaluation, one, I think we have had roughly five projects come before the Board for approval. Three were special funds projects on which we are ineligible to bid because of our lack of contribution to special funds. Two have been from the hard window. The point is that there is a first step even before we get to the bidding process. That is the engaging of a consultant to set up the terms of reference of the project and to design the project appropriately. Once we have completed that stage we then get to the point of calling for bids.

ADB LOAN RECIPIENTS

Mr. YATES. When you said that the loans have gone to the right countries, what did you mean by that?

Mr. BEACH. I would like to run briefly through where the loans have gone and then indicate——

Mr. YATES. What indicates that right country?

Mr. BEACH. I think Korea is a great friend of ours. Roughly 20 percent of the loans have gone to Korea. We also have an interest in Taiwan, and $100 million has gone there. The Philippines has received $105 million; Thailand, $75 million.

Mr. YATES. What countries are not the right countries?

Mr. BEACH. I don't want to get into that.

Mr. YATES. You used the term "right."

Mr. BEACH. Let me leave it at that. These countries that I have singled out are countries in which we have special interest.

Mr. YATES. What countries do we not have a special interest?

Mr. BEACH. In terms of our traditional interest, I should think Burma is one.

Mr. HENNESSY. I would say the smaller bank members that are in the developing category.

Mr. BEACH. New Guinea, Tonga.

Mr. YATES. I would like to know what they are. I would like to know the operations of the Bank and where you believe our interests are and are not directed.

Mr. BEACH. We have loans of $94 million to Singapore. We have $83 million to Malaysia, which traditionally has been of more interest to Great Britain than the United States. We have a loan program in Nepal.

Mr. YATES. These are the countries in which we have no special interest.

Mr. BEACH. I think we have more interest in Korea.

Mr. HENNESSY. It is a relative concept. The point is that if we put in a buck of our money in this particular case and other people put in $4, because of foreign policy reasons if we would just as soon have supported them ourselves, we would have saved money.

Mr. YATES. May I ask one last question?

If Communist China wanted to become a member of the Bank; could it?

Mr. HENNESSY. It became eligible when it joined the U.N. It would also have to agree to the charter of the Bank. If they could do this, yes—having joined the U.N. organization and if they agree to live up to the obligations of the charter of the Bank—they could become members.

Mr. YATES. Thank you, Mr. Chairman.

INDEPENDENT AUDIT AND REVIEW

Mr. LONG. I would like to continue with questions in the vein that I was pursuing.

The GAO report of May 8, 1973 on the Asian Development Bank states that regular, independent evaluative reporting to the Bank's member governments on: one, efficiency of its operations; two, success or failure of projects; and three, results achieved, is nonexistent. That

statement was made on May 8, just a short time ago. Moreover, the GAO report argues the need for an independent review of the Asian Bank's development activities. Are the U.S. Executive Director and the Treasury Department working to establish a program of independent review?

Mr. HENNESSY. Yes. That is particularly the point we brought out and which will show up in the record from our speech there and the talks we had with the congressional delegation and President of the Bank, of the need for this type of independent evaluative group. Yes, we are working to it.

Also, we will be successful in the course of the year.

Mr. LONG. Will this be truly independent? Remember, there is a big argument going on right now about the special prosecutor for the Watergate trial and whether he will be independent or not. Apparently, independence is a very difficult concept to pin down.

Mr. HENNESSY. If it is set up on the same lines as the Inter-American Bank group of controllers with which the GAO agrees in terms of independence, it would be. It is in the process of being discussed. Not only the United States is involved, however, there are 39 other countries involved.

ACCESS TO INFORMATION

Mr. LONG. It is the GAO view that to report effectively on U.S. participation in international financial institutions the GAO should have access to all information available to the Treasury Department and to the U.S. Executive Director-Governor, including minutes of the Board of Governors and loan progress reports.

Does the Treasury agree with this?

Mr. HENNESSY. I think these are areas which we have been trying to work out with GAO. There has been some difference of opinion. It is the same question that the chairman was bringing up earlier which goes to the heart of executive sessions.

If you distribute copies of minutes in which representatives of sovereign governments are talking about loans to other sovereign governments, they become sensitive documents. We have said that the control system is that you look at the decision and you look at the results and you do not necessarily have to know all the remarks that the director for France or Korea or Germany made on a particular loan and identify it as such.

Whatever the U.S. representative has said on a particular proposal and what the final decision is on the loan, we can fully submit. This is an area in which we have ongoing discussions with GAO. We are trying to work out a satisfactory solution. We certainly understand their need to get a full view of all the different aspects of the Bank's operation.

Mr. LONG. Is the Treasury Department willing to furnish all the information available to the U.S. Executive Director-Governor of the various banks to GAO on its request?

Mr. HENNESSY. With the exception of minutes, which involves representatives of sovereign governments sitting around the table criticizing loans and other difficult areas and the question of consultant reports, we have in the past provided copies of the recommendations of consultants but not the entire report. We think the client-consultant

relationship is a unique one which may be damaged or destroyed if the report is provided and we have been reluctant to do that.

MANAGEMENT OF U.S. PARTICIPATION IN ADB

Mr. LONG. The GAO report of May 8 lists a number of conclusions regarding weaknesses in the U.S. system of managing its participation in the Asian Bank. The weaknesses include insufficient information and late information on proposed projects and the absence of a requirement that U.S. missions provide information on bank projects. What is being done to meet these criticisms?

Mr. HENNESSY. We have put a reporting requirement on people in the field so they do report and report on a timely basis. We have a longer period of time to look at proposals between the time the proposal comes up and the time we have to respond. We are relying to a greater extent on cables rather than airmail.

We have worked out and have now circulated throughout the U.S. Government, as well as to our Executive Director, formal and standardized guidelines for appraising loans. We agree with the recommendations of the GAO. There was no dispute at all on those points.

TYPES OF PROJECTS FINANCED BY ADB

Mr. LONG. How strong is the commitment of the Asian Development Bank toward improving the lives of ordinary people in member countries?

Mr. HENNESSY. I think that is what they are all about. Rex has been on the ground and can provide a fuller answer.

Mr. BEACH. I think the nature of the projects is fairly indicative of the commitment. We have been very much involved in projects such as transportation, road construction, power projects, and irrigation.

For example, I was looking at some of the figures on the number of irrigation development schemes. We currently have 11 such schemes that will provide irrigation to about 400,000 acres of land. This affects 2 to 3 million people.

Mr. LONG. These classifications are very blunt instruments for finding out what is going on. My observation is that in most of the underdeveloped countries, these infrastructure loans have gone to improve the lives of people in the urban sectors and do not affect the people in the poor areas.

I understand that 13½ percent of the total ADB loans through the end of last year have been made in sectors of agriculture and education.

Mr. BEACH. I think that is certainly true.

In terms of number of loans, however, the figures are different. When we get into agriculture and irrigation, the projects have a smaller dollar volume vis-a-vis the larger power and hydroelectric projects. In terms of numbers of loans we have emphasized agriculture loans.

Mr. LONG. Only 132 out of 969 million. My feeling is that if this program has any meaning at all, it ought to go to the poor people. You do not seem to reach them anywhere you go.

Mr. HENNESSY. I think you have to get to the people. There is a

tradeoff. If you do too much in education then you get a lot of people being creative with no jobs.

Mr. LONG. That depends on the kind of education they get.

Mr. HENNESSY. That is right. If the health services are particularly good, you have a population surge.

Mr. LONG. It has to be well balanced. I understand that.

Mr. CONTE. If the chairman will yield there, really this is not a function of the Asian Development Bank, as I understand it. There are other programs that we have in the foreign aid bill which take care of the grants to Taiwan—not necessarily Taiwan and Philippines but some of the poorer countries—through the grant aid program rather than this type of program. As I understand it, this is mainly for business and industry.

Mr. LONG. Is that true?

Mr. BEACH. I can pick up on that and cite the Philippines as an example of the coordination of programs. In the Philippines, a great deal of the AID money goes for such things as health services and family planning. There have also been some projects for the transmission and distribution of electrical power.

Mr. LONG. Are you talking about bilateral aid?

Mr. BEACH. Yes.

We have coordinated our efforts with what AID is doing.

Mr. LONG. Do you accept the point which Congressman Conte has just made, that AID is to help the poor people and all this, but that the Asian Bank is for business? Do you accept that?

Mr. BEACH. I would say it is just one aspect of the ADB's lending operations to assist business. This is primarily——

Mr. LONG. I understood that. Of course it does. Would you accept the statement that the ADB is primarily for business? And if you want to try to help the poor people, that is for AID to do?

Mr. BEACH. I think we should go back to the charter of the Bank which specifies an attempt to promote economic development. I think that is the basic intent of the Bank.

Mr. LONG. Economic development with what aim?

Mr. BEACH. I think the aim is one of increasing the living standards.

Mr. LONG. Take Brazil. That nation is undergoing tremendous economic development, but practically nothing is going to the poor.

That is obvious to anybody who goes down there. It is helping the top 10 percent. The poor people are getting poorer, if anything.

Mr. HENNESSY. I don't think they have gotten any richer according to most of the income distribution figures we have seen on Brazil.

I think they themselves recognize it is a problem and are working on it. I think the distinction Congressman Conte was making is that $700 million out of the $900 million they have loaned has been for market rate loans.

You cannot make a market rate loan to the very poor countries at 7 or 8 percent and make it for education and the longer term payoff; that you have to do through the bilateral aid program or the soft window. You do need some balance and mix between the two programs.

Mr. LONG. What percentage of the soft loans has gone toward education and agriculture?

Mr. HENNESSY. We could submit that for the record. Maybe you know from your own memory.

Mr. BEACH. No, I do not.

Mr. LONG. If your hard loan money is going into the market sector then the soft loan money should be basically for the areas which will help the poor people.

Mr. BEACH. Again I think we do not have that at our fingertips.

Mr. LONG. Will you supply that for the record?

[The information follows:]

Thirty-four percent of the ADB special funds resources have been used for educational and agricultural purposes.

Mr. BEACH. In Indonesia where they have the largest programs we have heavily emphasized both water supply and agricultural projects in this whole area. We have gone out into the extremely poor regions and attempted to set up an electrical power grid and power generating facility and transmission and distribution facilities.

This gets back to the homes and allows people to enjoy a better standard of living. The attempt has been, as much as we possibly can, of getting to the people who actually need the aid.

I think we are all frustrated by this. I think we would all like to be able to do a better job.

EMPLOYMENT AND INCOME EFFECTS

Mr. LONG. I would like to say there are a lot of things that poor need before they get electricity. I do think education, better food, I do think health, a better feeling for what life is all about.

Does the Asian Development Bank consider the employment and income effects of the projects which it is considering?

Mr. BEACH. To my knowledge, we don't and I have been there about 7 months reviewing these various loan projects. We do not do so consistently. I think it varies with the project itself. We do not always attempt to identify the employment impact. In some cases, however, there will be general comments made depending on the mandate of the consultant.

There will be projections of the employment impact. As a standing rule, however, which is consistent in every case we do not have such a procedure to my knowledge.

Mr. HENNESSY. We do report in our National Advisory Council Annual Report to the Congress where there is information for the record. I think part of the problem is trying because of the state of the art, to reach any definitive conclusion on a micro-project to see what impact it has on income distribution. You can identify some of the employment effects and even this is difficult. You have to depend more on macro-policy than on micro-policy.

Mr. LONG. I understand you will not get precise measures. If you do they are probably phony. There is a general feeling among all the people who have been studying economic development over a number of decades, who have gradually changed their whole philosophy and attitude on this, that we ought to be trying to keep the people in the agricultural areas. We ought to be trying to make them more productive on their little plots.

Life can be far better up in the hills or out where these people live if they are kept there and they are able to produce more.

Greater GNP per capita, loading great quantities of high-powered capital, is not only not a very good standard but it can be counter-productive. Do you see what I mean?

Mr. HENNESSY. I agree.

Mr. LONG. I am wondering if the ADB is recognizing this and trying to find out.

Mr. HENNESSY. I think you have to make it part of the overall loan criteria. Because it is a newer bank the ADB has been less concerned with this matter than some of the other aspects. At the outset in the Inter-American Bank they had a trust fund and they broke some new ground in the agriculture and housing area. This is a new bank and it is getting into this area but it is feeling its way along. I would like to quote one project which has been carried out in Indonesia in the farming sector where they did identify that the farming income of the project area, which was a depressed area, would increase by 34 percent. It is spotty. Not in every loan, but clearly when they can identify it and provide attention to it, they are doing it. I think it is one of the things that our executive director can be giving more attention to.

RELENDING PROJECTS

Mr. LONG. It seems you need a whole new concept and breakthrough. When I was in Jamaica, you were very good about having me see some projects. These were projects which did not fulfill what I had hoped they would—raising the standard of life of the poor people who live in little shacks on the hills.

I looked at the three loan projects that I was taken out to see. They were all for people who were fairly well off. One was to the second largest bakery in Jamaica and the other was to a very substantial chicken farmer, obviously a very intelligent woman, who was so far above the people up in the hills whom we were supposedly trying to help, that it was a different order of magnitude. The third was one of the most intelligent people I had seen in a long while. He had a home as good as anything in the working area of my district and had built up the business and farm, before he got the loan. He did what anybody with a lot of sense does. There was a loan on favorable terms, and he went after it. This type of help is not going to accomplish the kind of thing we are talking about.

Mr. HENNESSY. That came out of the Bank's relending program, as you know. That is an area which I think the Asian Bank deals with as well as the Inter-American Bank, which tries to develop the private sector. It is the small private sector. However, they are not the poorest people.

Mr. LONG. Those are the people you have to reach, the people I was taken out to see. While they might be poor by American standards, they must have been in the top 5 percent of the people in Jamaica—maybe the lower part of the top 5 percent but in that group. I do not know how you reach the average Jamaican.

Mr. HENNESSY. The hospital project is one that this clearly helps the poorest people. I do not know whether you saw that. Also one should consider the creation of jobs. If you build a road, it involves construction work and creates new employment. I don't think we should cut out the relending programs which get out to a reasonable level of middle and lower income people to increase their business.

Mr. LONG. I am saying that everywhere in the world you have not reached the poor people.

Mr. SHRIVER. If you will yield, you mentioned the citrus grower and the farmer that you saw.

Mr. LONG. Yes.

Mr. SHRIVER. Of course, he had 15 or 20 people working for him. You did not see them.

Mr. LONG. But he had those before he got the loan.

Mr. SHRIVER. No, he did not. Because he added to this and the farm. That was the result of expanding his operation.

I do not think this is counterhumanitarian.

Mr. LONG. Won't you agree that he was in pretty good shape before he got the loan? He was an extremely intelligent man and not a typical Jamaican.

Mr. SHRIVER. He was developing the country and creating jobs.

REACHING POORER PEOPLE

Mr. LONG. Whether he was creating jobs, I do not know. I hope he was.

What I am trying to get at is that you have Jamaica crawling with 1¾ million people who are living up in the hills under the most wretched circumstances. We have to figure out a way to reach them.

Mr. HENNESSY. I think the population program of the World Bank is one way.

Mr. BEACH. I might indicate one program that might be of some interest to you in this respect. It is the Chitwan Valley integrated economic development project in Nepal that the Bank has been involved with during the last 3 years. Actually we have several projects that have focused on this one geographical area. We have an irrigation project, a road project, a power project, also a rural development bank project where we loan funds to the rural bank to relend to provide credit for farmers. Along with this we have provided for various consultants to help set up and implement the project in conjunction with the Nepalese Government.

It is an attempt to get at one valley, which is quite a poor one, in an attempt to provide all the inputs necessary to increase the standard of living in a rather broad across-the-board fashion. I say we have been involved in this for 2 years and I would be hopeful we would learn a great deal from the exercise.

Mr. YATES. Mr. Chairman, it is interesting that this kind of good project should take place in one of the countries that was not listed among the right countries.

Mr. BEACH. Again if I can come back to that point, it is simply a matter of degree.

LEAST DEVELOPED RECIPIENTS

Mr. LONG. The GAO report states that under the Bank's articles of agreement, special attention should be given to the needs of the least developed member countries. Is that true?

Mr. BEACH. Excuse me?

Mr. LONG. The Bank's articles of agreement say that specific attention should be given to the needs of the least developed countries. Is that right?

Mr. HENNESSY. Yes.

The Asian Bank because of its strong regional character, thought that Asians would be better at doing this and that Asians would be more successful than just a U.S. bilateral effort.

Mr. LONG. That is true, is it not? The Bank's articles of agreement say that specific attention should be given to the least developed member countries?

Mr. HENNESSY. Yes.

Mr. LONG. How do you account for the fact that, according to the GAO report, the five member countries with the highest GNP per capita out of the 20 members have gotten 62 percent of all Asian Bank loans as of December of this last year?

Those are Singapore, Taiwan, Malaysia, Korea and the Philippines.

Mr. HENNESSY. There are two answers. One is that the poorer countries cannot handle market rate loans. The soft loan window is the one that is constrained because there have only been a couple of hundred million dollars in there.

We have not put our part in there, for example.

Mr. LONG. What proportion of the soft loans have they received?

Mr. BEACH. In terms of soft loans the five countries would have no more than 3 or 4 percent. One third of the soft lending to——

Mr. LONG. I have 7 percent. Is that about right?

Mr. HENNESSY. Yes. That is point one. Point two, the poorer the country the more difficult it is to find a good project. It takes longer to generate a good project there.

You have to take them hand by hand.

ECONOMIC PERFORMANCE CRITERIA

Mr. LONG. I understand.

Does the Asian Development Bank require that member countries meet economic performance criteria to continue to receive the loans?

Mr. HENNESSY. General economic criteria. At the present state of the art no one has been able to reduce that to a formula.

Mr. LONG. Can't you discourage them from getting more money if they are not doing very well? Remember how badly Indonesia was doing some years ago?

They threw it away. It was shocking.

Mr. HENNESSY. Absolutely. Indonesia didn't get multilateral money then. But Indonesia's good performance since has been rewarded by getting substantial multilateral money. So has Korea's.

Mr. LONG. Has land reform for tenants and landless agricultural laborers been one of those criteria?

Mr. BEACH. We have not really focused on that at the operational level in the Bank. I think it is interesting in this respect that USAID in the Philippines has been quite a pioneer in land reform. Several members of the Bank have been in close contact with USAID to find what their experience has been. I would say at the Board level there is a great interest in what the Bank may be able to do in this area.

Mr. LONG. That would be a good case to take up because I understand from what everybody says, the social and political and economic conditions in the Philippines have reached a crisis state and there is some question whether you can keep the country going and avert a bloody revolt.

Mr. CONTE. That is not what I saw 2 weeks ago. Where did you get all this?

Mr. LONG. Reading the papers.

You didn't get all over the Philippines, of course. You are aware there is a bad situation.

Mr. CONTE. I did not stay in the capital. I went out in the country. I saw some projects which resulted from the money this committee and the Senate committee appropriated, such as $50 million for flood disaster.

Mr. LONG. The gentleman is pleased with the performance in the Philippines.

Mr. CONTE. I am not saying everything is great in the Philippines. I talked to some senators and representatives who are out of a job right now. They felt that things were fairly well under control. It is going to be a delicate period.

Mr. LONG. I am glad to hear your report on that. Perhaps I have been reading the wrong reports.

Mr. CONTE. You can ask the Secretary. He was there.

Mr. LONG. What is your feeling about the Philippines?

Mr. HENNESSY. It is a delicate situation. I think everybody recognizes they are in a period of transition. I think the Marcos government has charted a course of trying to bring about social revolution peacefully and some people raised questions whether that is a real intent. Everything we have seen has convinced us it is a real honest effort.

Mr. LONG. Honesty is not a word that is usually used to describe the political setup in the Philippines; is it?

Mr. HENNESSY. I have certainly not been in a position to use any other word.

There is a dedication from all the reports we have, and from my own personal experience, to bring about social change but without a bloody revolution.

Mr. LONG. Have they had much land reform there?

Mr. HENNESSY. I think they are in the process.

They brought in people from the outlying districts and some of the guerrillas and insurgents and tried to bring them into the process of decisionmaking. It is anybody's guess how successful it will be.

Mr. LONG. Do you have any quantitative figures on land reform in these various countries because that is the big problem we have in many Asian countries.

Mr. HENNESSY. I think land reform is a tricky issue. It was very successful in Taiwan. It resulted in a great decrease in production in Bolivia and Chile. I am not sure of the Mexicans. It is a very tricky area.

I think when you have excess land it is easy to open up new areas. When you do not and you try to redistribute you get into touchy areas. We will provide you for the record the information we have on the particular countries in question.

Mr. LONG. Do you have anything on what is being done in these countries to get the poor people out from under the grip of the money lenders?

Mr. HENNESSY. I think one of the ways of doing it is by providing through the intermediate lending institutions which the banks work with rates of interest which are not at usury level.

Mr. LONG. When I was in Mexico some years ago, the great complaint I heard from people whom I went out to see was that they were paying fabulous rates of interest, frequently the local people, and this was wrapped up with the political situation and marketing situation for their goods. They were really prisoners of their loans. The nature of the captivity went way beyond the fact they had a loan and were paying a fabulous rate of interest. They had to sell their product to a certain person and so on.

Mr. HENNESSY. It is a company store type of thing.

Mr. LONG. It would be one of the things that you would consider even in giving hard loans.

Hard loans are 8 percent. For people who are paying 100 to 200 percent a year, that would be a wonderful thing. If you could get that out to these poor peasants in the various countries that would be a wonderful thing to do.

What are we doing?

Mr. HENNESSY. Through the cooperative movement in financing them, that normally gives them credit and helps them to market the goods.

I think more of that has been done in Latin America because of the cooperative movement than in Asia.

Mr. LONG Are we doing anything?

Mr. HENNESSY. Through the banks and in our bilateral program.

Mr. LONG. I wish you would put in the record, if you can, what is being done to encourage land reform, as I mentioned—and I would like it quantitatively and not just "They are trying." What is being done to encourage the cooperative movement in these countries, what is being done to encourage getting these people out from under the grip of money lenders. If you can give us some quantitative data that would be worthwhile.

I think words like "trying" or "the situation is encouraging" really mean very little, at least to me.

[The information follows:]

The Asian Development Bank has not engaged itself in any direct land reform efforts to date. Under current lending guidelines, it does not provide local cost financing and the most obvious means of assistance would be provision of local currency for purchase of land holdings for redistribution.

Cooperatives, on the other hand, have played a key role in numerous ADB loans. Cases in point are recent fishery loans to Korea—$13.3 million; Sri Lanka—$3.1 million; and Bangladesh—$6.73 million. In Korea, cooperatives benefited from proceeds of Bank loans to purchase marine engines and equipment for their members. The same practice was followed in the Sri Lanka loan. In the Bangladesh fisheries loan, cooperatives will be used to operate and maintain icemaking plants to be constructed under the terms of the loan.

With regard to relending rates, in no instance has the rate to the final borrower exceeded 12 percent. In practice the spread on an ordinary capital loan is between 2½ and 3 percentage points. This covers administrative and operating costs associated with the relending activity. With regard to special funds, however, the spread is usually wider with the benefit accruing to the Government. In no instance has the rate to the final borrower exceeded 12 percent; $152 million has thus far been used by the Bank in providing funds through intermediate credit institutions.

PROCUREMENT POLICIES AND PROCEDURES

Mr. YATES. Mr. Chairman, if I may ask a question, in the statement on page 9, it is stated that:

Let me emphasize on the basis of independent examination we see no evidence of deliberate discrimination against U.S. firms in the Bank's policies or procedures.

Why would you put a sentence like that in your statement?

Mr. HENNESSY. There was some question raised about whether or not we knew enough about the policies and procedures, and because of the distribution of procurement where most of it went on the hard loans to Japanese bidders whether or not there was some bias in the procedures or actual decisionmaking. We got a private U.S. consultant from an engineering firm and asked him to make a study and come up with some results.

His conclusions were there were no biases in the system.

He did make a number of recommendations how we could improve the flow of information back to U.S. business ourselves so they would know about these opportunities and could bid on the project in advance.

There have been some changes brought about as a result of that.

Mr. YATES. What is the percentage of loan procurement going to Japan as opposed to the United States, which gave rise to the inquiry?

Mr. HENNESSY. Over 50 percent of the hardware that is sold by the Bank has gone to Japanese firms. In the consulting, 50 percent has gone to the United States. We happen to have an advantage there.

Mr. YATES. How much of the hard loan business has gone to the United States?

Mr. HENNESSY. Eight percent.

USE OF CONSULTANTS

Mr. YATES. You mentioned consultants. I notice that Mr. Shriver last year asked you to put in the hearings the number of consultants that you had retained. That list appears on page 337 of part I, and it indicates that you had 224 consultants. How much did you pay them? How much does a consultant receive?

Mr. BEACH. I think the budget we had for consultants in 1972 ran about $254,000. This is something I would have to check. I can submit that for the record.

Mr. YATES. Will you put that in the record?

[The information follows:]

The number of consultants employed by the Asian Development Bank in calendar year 1972 was 54. Their average daily remuneration was $65.62. The amount spent for calendar year 1972 was $301,977.

The following are the consultants employed by ADB in calendar year 1972, listed by nationality.

Australia—K. I. Whatson; L. J. Cairns; J. A. Callow; G. Johns; and D. J. L. Rogers

Canada—H Gourdeau

Republic of China—T. C. Chiang.

Finland—M. Pasanen.

Hong Kong—Y. K. Ching.

India—T. S. Gill; R. K. Jana; and A. A. Krishman; K. Krishnaswamy; B. S. Mal; G. N. Mitra; S. P. Nair; S. Y. Rao; M. Shetty; and K. N. Singh.

Italy—A. Piccinini; G. Sacco; and B. Trezza.

Japan—Y. Izawa; S. Shishido; and H. Hoki.

Korea—H. B. Kim and Y. K. Shin.

Malaysia—E. Lee.

Netherlands—F. J. E. Vandierendonck.

New Zealand—J. R. Claydon; R. Fenton; E. R. Ireland; and R. Wakefield.
Pakistan—F. H. Abbasi.
Philippines—R. I. Cruz; M. C. Esguerra; J. Eusebio; C. F. Hachero; R. M. Lantin; J. Madamba; V. Quintana; P. Reyes; and R. Valmayor.
Sri Lanka—H. M. A. B. Fernando.
United Kingdom—C. Y. Akhurst; W. H. W. Coultas; B. Grimwood, I. F. Ogilvie; N. Smith; and J. Chadwick.
United States—J. L. Enos; L. G. Matthews; R. Schulze; and K. I. Turk.
It should be noted that the above list is of consultants retained by the Bank itself. A much larger volume of consultant services is utilized by borrowers in connection with loans made by the Bank, and U.S. consultants provide the largest proportion of these services.

Mr. YATES. Will it be convenient to put in the record the list of who your consultants were?

Mr. BEACH. Yes, by nationality.

Mr. YATES. With their names?

Mr. BEACH. Yes.

ADMINISTRATION EXPENSES

Mr. LONG. What are the total estimated administrative expenses in fiscal 1973?

Mr. BEACH. The projected amount is about $10.6 million.

Mr. LONG. What percentage is that of total obligations?

Mr. BEACH. By the end of 1973 total lending will be way over $1 billion. That is about 1 percent.

Mr. HENNESSY. That is a cumulative figure. On an annual basis you are running about what?

Mr. BEACH. On an annual basis it is about 3 percent.

Mr. HENNESSY. The billion figure is a cumulative one. You are looking on an annual basis.

Mr. BEACH. We should be up to $350 million this year.

Mr. LONG. That is about 3 percent. How does this compare with other institutions similar to it? Is this about right, is it out of line, or low?

Mr. BEACH. We have the figures to figure it out.

[The information follows:]

The following are administrative costs of loans in the most recent fiscal year of each of the institutions, expressed as a percentage of loans:

	Percent
IBRD/IDA (fiscal year 1973)	3.2
IDB (calendar year 1972)	3.7
ADB (calendar year 1972)	3.1

BILATERAL AND MULTILATERAL AID COORDINATION

Mr. LONG. The Nixon administration is requesting appropriations for the Asian Bank of $221 million in fiscal year 1974 and the U.S. Bank provides significant amounts of development aid to Asian countries. As the Asian Bank increased its lending, should the United States decrease its bilateral development aid?

Mr. HENNESSY. I think we will not decrease it. It is about at the level we think is necessary with the exception of South Indochina. It is clear that any major reconstruction effort will require a special bilateral approach.

Mr. LONG. You see this as an increase in the total foreign aid rather than a substitution?

Mr. HENNESSY. That is correct.

Mr. LONG. How does the ADB coordinate its lending with U.S. development aid and with other donors so that the best use is made of scarce funds?

Is there a real program of systematic coordination?

Mr. BEACH. We do it in several ways, Mr. Long. The ADB belongs to numerous consultative groups that are chaired by the IBRD in which annual meetings are held depending on the need. At that meeting all of the donors attend, and in effect decide in consultation with each other and with the country in question what the needs of the specific country might be. In addition we have emphasized to a very great extent that the Bank, whenever missions go into the field, coordinates, its efforts with the local AID mission, be it Korea, Nepal, Afghanistan, Thailand, et cetera. In this way there is a continuous interchange of information regarding what the United States and the Bank are doing.

Mr. LONG. Have there been any instances in which two things have gotten fouled up, like putting a road which you are going to subsequently flood with a dam, to use a very crude illustration?

Mr. BEACH. Not to my knowledge, but I could give you a couple of instances of cooperation which have been fairly helpful.

For example, the Bank has been interested in the Helmand Valley in Afghanistan and AID has been active in the same valley. We have had good coordination between the Bank and USAID. We are building a road that must wait on an AID project and I think the progress is going on well.

Currently in Korea there is a port development project in which private financing has come from the United States for part of the port facilities and the ADB is in the process of negotiating a loan to finish off the rest of the project. So there are many instances of this type of coordination and cooperation.

Mr. LONG. Through the end of the last year, the Asian Bank has approved about $926 million of loans, is that right?

Mr. BEACH. That is right. Both windows.

DISBURSEMENTS

Mr. LONG. But disbursements have totaled only $136 million, is that correct?

Mr. BEACH. That is correct.

Mr. LONG. Why have disbursements been so low?

Mr. BEACH. If I could I would like to explain that a little bit. First of all the Bank went through a startup stage in which there was a long gestation period before even approving the first loan. There was a very important next step which the Bank was very careful to monitor closely and that was the selection of the consultant to set out the framework of the project to the implemented. In all instances, the Bank

has been careful to see that all the proper guidelines have been followed and they have obtained the best expertise possible for the job.

In many cases this is because the borowing countries have been unfamiliar with bank procedures. We have in effect gone through a learning process.

Mr. LONG. How long have some of these loans been hanging fire?

Mr. BEACH. When we set up a loan there may be a period of 4 to 5 years during which it is being implemented.

Mr. LONG. You have seen some that have been hanging fire for that long?

Mr. BEACH. Not hanging fire.

Mr. HENNESSY. It is like the domestic projects on river basins, which may take up to 7 years. It may take 7 years to build the dam or road. They draw down over time.

Mr. LONG. How does this slow rate of disbursements, if you can call it that, compare with other similar situations? You do not feel there is any greater lag here than there has been in others?

Mr. BEACH. We check on this very carefully and have been very concerned about it. I think our experience with ADB is pretty much the same as the World Bank in its startup phase.

If I could make a comment about this disbursement rate, of all loans which became effective in 1968, 82 percent are fully disbursed today.

For 1969 the rate is up to 84 percent. For 1970 it is 53 percent. For 1971, 21 percent.

We have run into this problem in the last 2 or 3 years because of a tremendous increase in the volume of loans. This has put the 926 figure up to quite a high level.

Since these loans have been approved in the most recent past the disbursement rate is necessarily slow.

Mr. LONG. Who holds the money in the meanwhile?

Mr. HENNESSY. It depends on which fund it is from. They may not have drawn down from a soft fund. It may be a credit window that is open.

Mr. LONG. The countries have not paid it in?

Mr. HENNESSY. That is right.

In other cases they have paid in the money and the Bank is holding it. But we use non-interest-bearing letters of credit to avoid giving idle funds.

Mr. LONG. It would be very useful to provide for the record the obligations and disbursements by sector in 1972 and 1973, and I will give you the sectors that I would like to see it done in, and also who has put up the money and where it is being held.

In other words, have large parts of U.S. money been collecting dust somewhere and not working? Those are all the questions I have, Mr. Chairman.

[The information follows:]

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SECTORAL BREAKDOWN OF ADB LOANS

	Amount (millions of U.S. dollars)	Percent
1. As of Dec. 31, 1971:		
Agriculture	91.893	14.40
Electric power	151.690	23.70
Industry and development banks	204.170	32.00
Transport and communications	136.410	21.40
Water supply	51.300	8.00
Education	3.000	.50
Total	638.463	100.00
2. As of Dec. 31, 1972:		
Agriculture	124.733	12.87
Electric power	272.790	28.15
Industry and development banks	236.170	24.37
Transport and communications	218.460	22.55
Water supply	110.200	11.37
Education	6.700	.69
Total	969.053	100.00
3. As of Apr. 25, 1973:		
Agriculture	127.533	12.80
Electric power	280.690	28.18
Industry and development banks	236.170	23.71
Transport and communications	234.760	23.57
Water supply	110.200	11.07
Education	6.700	.67
Total	996.053	100.00

COMPETITIVE POSITION OF JAPAN

Mr. PASSMAN. Thank you, Dr. Long.

I shall proceed to ask some questions.

If I could get the facts on the record and we could eliminate personalities and pressure, I am sure that we would all reach an agreement that the type of request we are considering this afternoon is why we are in such a deplorable situation with our fiscal policy in this country. It is to be regretted that we have become so addicted to yielding to budget requests on unjustifiable matters. If there was ever a request before this committee and before the Congress in my considered judgment that should be turned down flat, it is this one for the Asian Development Bank.

Now let us see if we can make a record which supports that statement.

I believe that you said earlier that the dollar had been depreciated, as we check it with the yen by 35 percent; is that correct?

Mr. BEACH. That is right, sir.

Mr. PASSMAN. If I understand correctly, the Japanese are accepted as possibly the greatest business people and bankers on the face of the Earth, European bankers notwithstanding. Isn't that pretty much understood now in banking and business circles?

Mr. HENNESSY. I would not give way to the United States.

Mr. PASSMAN. I always reserve my country. Otherwise.

Mr. HENNESSY. Otherwise. I think they are seen not as No. 1, but at least as an equal with other European countries.

Mr. PASSMAN. They are so far ahead that you could not see them except with binoculars. Let us take the Japanese airlines which is government-owned, is it not?

Mr. HENNESSY. Yes, it is.

Mr. PASSMAN. The Japanese have $20 billion unused and unneeded that they are holding in reserve to beat us into any position they want us in. I think the amount they are holding is $20 billion; is that correct?

Mr. HENNESSY. I think it has gone down the last month.

Mr. PASSMAN. This is as of February 28, 1973, and has been certified by the Treasury Department.

Mr. HENNESSY. I think a good portion of those are invested in U.S. Treasury bills.

Mr. PASSMAN. Certainly they are because we have to borrow money from any nation that will let us have it.

You know it as well as I do. We borrowed $100 million from Thailand.

Mr. HENNESSY. A number of years ago, that is correct.

Mr. PASSMAN. We still owe them the money and it is due July 2. You accept that as a fact.

Mr. HENNESSY. I am sure you researched it.

Mr. PASSMAN. Let us look at the Japanese airlines case. When these people wanted to buy airplanes, recognizing that they had the power and persuasion through the cooperation of others to devalue the dollar, they bought those airplanes on credit; did they not?

Mr. HENNESSY. They bought them on credit.

Mr. PASSMAN. They bought them on credit. What happened? They expect to repay that loan with the 35 percent discounted dollars. That is how clever they are. Let us go back to this organization. You have had two presidents of the Asian Development Bank and both have been Japanese; have they not?

Mr. BEACH. That is right.

Mr. PASSMAN. The first President was so arrogant that he would not even permit the U.S. board member to know who was receiving personnel loans.

[Discussion off the record.]

SPECIFICS OF REQUEST

Mr. PASSMAN. We are wrecking this country and its future by continuing to give our money away all over the world. Your total foreign aid request this year is over $18 billion. The requests are spread out through the budget under many different headings. If I read the record correctly, last year the Asian Development Bank requested $100 million. This committee denied that $100 million; isn't that true?

Mr. HENNESSY. Yes.

Mr. PASSMAN. Do you have legal authorzation to move on?

Mr. HENNESSY. We have a legal authorization according to the opinion of our General Counsel.

Mr. PASSMAN. How about other counsel? I don't think your counsel would hold a job if he did not agree with you.

Mr. HENNESSY. We have a legislative history, yes.

Mr. PASSMAN. Legislative history? But you do not have any authorization by bill and by number, do you?

Mr. HENNESSY. The authorization itself. Might I make a distinction, Mr. Chairman? There are two amounts before you. One we have not sent the authorization up.

Mr. PASSMAN. That is what I am talking about. You are testifying on the $100 million which this committee denied last year.

Mr. HENNESSY. And $120 million in hard funds.

Mr. PASSMAN. Let us keep the record straight now. You actually only have one item on which you are testifying today.

Mr. HENNESSY. We are testifying on two items today, sir.

Mr. PASSMAN. Actually what you are asking this committee to do is to reinstate the $100 million it cut out last year and give you an additional $20 million. Is it that simple?

Mr. HENNESSY. We are asking for $100 million of soft funds and $120 of hard capital.

A total of $220 million.

Mr. PASSMAN. You are asking in effect for the reinstatement that we cut out last year and then another $120 million. I am of the opinion that the committee itself, Passman notwithstanding, is not going to look on that very favorably because it would make a complete mockery of this committee, to say we want the $100 million you cut out last year. Let me assure you, there is nothing personal about this. I am frightened over what we are doing to unborn Americans, because we both know that this money is being borrowed. Isn't that so?

Mr. HENNESSY. We get into a question of fungibility.

U.S. BUDGET DEFICIT

Mr. PASSMAN. Your first obligation is to your own family. Our first obligation is to our own American institutions such as the Post Office Department, Interior, Defense. Isn't that the first obligation?

Mr. HENNESSY. It certainly is.

Mr. PASSMAN. When you go beyond that we are dabbling with a deficit maybe approaching $30 billion this year.

Mr. HENNESSY. Here again it is a question of mathematics. I think the budget deficit can be much smaller than first projected.

Mr. PASSMAN. I am talking about the administrative budget. You know the trick of taking all the trust accounts and showing that as something the Government has. Dealing entirely with the administrative budget, we are going to run a deficit of around $30 billion; are we not?

Mr. HENNESSY. I am not aware of the total amount. I know the budget gap has been closed considerably on the NIA accounts to somewhere around $19 billion.

Mr. PASSMAN. While the Secretary of the Treasury was before the full committee, I asked this question, "When we appropriate funds for multilateral organizations we move in complete darkness as to firm justifications. The committee in most instances has been denied the right to examine those who administer the multilateral funds. The weak justifications are presented by some Assistant Secretary who attempts to speak for those who subsequently administer the funds appropriated. When the funds are finally appropriated they are commingled with smaller donors who in some instances indirectly become the recipients of the funds. We do not know the recipients of the funds nor does a recipient know the donor. Under these multilateral organizations we have no idea when the funds are allocated, in what amount, to what country or for what purpose. Furthermore there are

no provisions for any repayments to flow back into the U.S. Treasury. How can this be corrected, Mr. Secretary?"

He did not argue whether this was correct. I will ask this question: In all these multilateral organizations, the money is paid back into the organization and not back into the U.S. Treasury. Isn't that true?

Mr. HENNESSY. That is correct.

ADB LOAN RECIPIENTS

Mr. PASSMAN. Let us look at the nations who are members of the organization. We are a donor but not a recipient.

Mr. HENNESSY. Not at the present time.

Mr. PASSMAN. Who are the recipients?

Mr. HENNESSY. There are some.

Mr. PASSMAN. Let us name them for the record.

Mr. HENNESSY. Do you have the list there?

Afghanistan, the Republic of China, Taiwan.

Mr. PASSMAN. We likewise borrowed money from Taiwan. Didn't we find they had a very small foreign exchange surplus and they said, "We can let you have $20 million," and we borrowed $20 million from them?

Mr. HENNESSY. I am not aware of the transaction.

Mr. PASSMAN. I am aware of it and I will state that for the record.

Proceed.

Mr. HENNESSY. Fiji Islands, Hong Kong, Indonesia.

Mr. PASSMAN. Hong Kong is one of the most prosperous spots on the entire face of the Earth. They have one of the strongest economies and lowest tax of any nation on the face of the Earth. They are waxing fat with a tremendous surplus in the Treasury. Why would they be making loans to Hong Kong? That is a possession of the United Kingdom, is it not, or as we say, sometimes, Great Britain.

Mr. HENNESSY. I believe there has been one loan made to Hong Kong of $21,500,000.

Mr. PASSMAN. That is not small in my book.

Mr. HENNESSY. At the market rate of interest. They do not have the ability to go out themselves and float bonds on the market.

Mr. PASSMAN. Hong Kong has tremendous cash surpluses in their treasury, Mr. Secretary.

Have you been there recently?

Mr. HENNESSY. I have not been there recently.

Mr. PASSMAN. You can hardly walk on the streets or get in a hotel or get served. It is one of the most prosperous places, if not the most prosperous on the face of the earth.

What kind of loan did they make?

Mr. BEACH. It went to a desalinization plant, Mr. Chairman.

Mr. PASSMAN. For the Government of Hong Kong?

Mr. BEACH. They guaranteed it.

Mr. PASSMAN. Let us move along.

What other nations?

Mr. HENNESSY. Indonesia, Cambodia, Korea, which has gotten the lion's share, Laos, Malaysia, Pakistan, New Guinea.

Mr. PASSMAN. You can place the others in the record.

[The information follows:]

Recipient countries Asian Development Bank special funds resources

Country:	*Millions*
Afghanistan	$20.050
Indonesia	77.540
Khmer Republic	1.670
Republic of Korea	3.700
Laos	4.343
Malaysia	3.300
Nepal	35.710
Pakistan	18.200
Papua New Guinea	14.300
Philippines	3.500
Singapore	3.000
Sri Lanka	25.205
Republic of Vietnam	11.300
Western Samoa	5.330
Total	227.148

Mr. PASSMAN. Let me ask you specifically about Thailand. Is Thailand a recipient?

Mr. HENNESSY. Yes.

Mr. PASSMAN. I want you to verify for the record that we were so short of dollars that we went out and first tried to borrow $250 million from Thailand. They turned us down but we finally compromised and said we will borrow $100 million from you, and that money is now due on July 2 and we really do not have it to pay them back.

Will you search the record on that?

Mr. HENNESSY. We have it to pay back but this was part of an arrangement which was at that time prior to the August 15, 1971, measures. There were a series of them with developed and undeveloped countries.

Mr. PASSMAN. It was purely because of our serious difficulty with our balance-of-payments situation; isn't that correct?

Mr. HENNESSY. It certainly derived from our balance-of-payments situation.

Mr. PASSMAN. Mr. Johnson was trying to make the balance-of-payments situation look better and he borrowed dollars to do it. Isn't that correct?

Don't be afraid to put the facts on the record.

Mr. HENNESSY. The purpose was to provide facilities for handling the balance-of-payments problem at that time.

Mr. PASSMAN. You can use any words you want to. But the purpose of the Johnson administration to borrow this money was to make the balance-of-payments situation look better.

Mr. HENNESSY. I think it was to deal with the problem at that time.

Mr. PASSMAN. Certainly.

We still owe that $100 million to Thailand.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. We have to pay it back at 6 percent interest and it comes due on July 2.

Mr. HENNESSY. I am not sure of the interest rate.

Mr. PASSMAN. I can tell you it is 6 percent. During that period, we were pouring foreign aid in the backdoor on a grant basis.

Mr. HENNESSY. On the bilateral program.

Mr. PASSMAN. Bilateral or any other kind of lateral you want to establish for the record. We had many different types of programs that were furnishing grant aid to Thailand.

Mr. HENNESSY. The Asian Bank has made $70 million in loans——

Mr. PASSMAN. I am talking about bilateral U.S. aid.

Mr. HENNESSY. I do not have the figures. I am sure you know them better than I because you know them better than any man in the U.S. Government.

Mr. PASSMAN. I wish I had some persuasive power. I am not angry, but I am frightened. This is actually wrecking our country, this foreign-aid program.

While we are making loans to Thailand, we are also borrowing money from Thailand. By the same token we are pouring money into the Asian Development Bank and they are in turn making loans to Thailand; is that right?

Mr. HENNESSY. The Asian Bank has made $70 million worth of loans to Thailand at a market rate of interest.

GAO RECOMMENDATIONS

Mr. PASSMAN. Do you have any comment on the GAO report? Have you had an opportunity to read it?

Mr. HENNESSY. Yes; I read it.

It is similar to the three reports. It grew out of work done a year ago. In terms of recommendations, we have not disagreed with the specific recommendations. The report is comprised of many pages of general assertions and then some very few particular recommendations. Two of the recommendations, for example, were to improve the guidelines, for evaluation of projects, and to improve the flow of information. In answer to Dr. Long's question, we do agree with him; we are implementing those particular specifications.

Mr. PASSMAN. In GAO's opinion, the Treasury does not yet have a fully functioning system for managing U.S. participation in the Bank. As a result, Treasury is not in a position to assure the Congress that funds contributed are being used. Did you read that?

Mr. HENNESSY. Yes.

Mr. SHRIVER. Is this the report of May of this year?

Mr. HENNESSY. That is right. Most of that work was done approximately 1 year ago. Since that time, we have implemented several changes.

I think part of the difference came because we did not codify a lot of things. To illustrate this point, the Appropriations Committee does not have a black book telling you whether or not you should approve this request. The GAO feels that when we look at a loan, we should have a code before us and every other U.S. Government agency so we can look at the same standards. I think it is useful to do it. The final element, however, is judgment, and you cannot put that in a black book. We have gone to a standard codification and more systemization of the system that existed heretofore.

Mr. PASSMAN. We do not have the right of direct audit.

Mr. HENNESSY. We do not. Nor has the GAO sought it.

Mr. PASSMAN. I know.

Even in our own system where we have close scrutiny over the military and all the other departments, we are running into irregularities even under the best supervised agencies. Yet here we are pouring money into an international organization which has no provision for ever getting a dime back, and we do not have the right of direct audit. What is wrong with direct audit?

Mr. SHRIVER. Before you leave that, I will ask another question.

One of the major points raised in the recent report of the GAO is the lack of adequate time for evaluation of a formal loan documentation.

The report states that you and the U.S. Mission get the loan documents late, so your comments on the proposed loans are not received by the Advisory Council in time for effective review.

In turn, the Council's instructions are not received by you and the U.S. Mission in time for effective action before the Bank Board votes on the loan. What is your comment on that?

Mr. HENNESSY. I think the GAO deleted the major portion of our answer to the report which I would like to submit to the record. I would briefly summarize to the effect that much of the communications were done and are done regularly over the phone so there is a flow back and forth.

[The information follows:]

The full text of the Treasury Department's response to the GAO Report, "U.S. System for Appraising and Evaluating Asian Development Bank Projects," is as follows:

[See pages 1137–B through 1137–R.]

THE DEPARTMENT OF THE TREASURY,
Washington, D.C., December 5, 1972.

To: Mr. Oye Stovall, Director, International Division General Accounting Office.
From: John M. Hennessy
Subject: Treasury Comments on GAO Draft Report on Asian Development Bank (ADB).

I am supplying herewith Treasury Department comments on the GAO draft report entitled "U.S. System for Appraising and Evaluating Asian Development Bank Projects."

In contrast with the recent GAO draft reports on the Inter-American Development Bank and the World Bank, the present draft concerns itself to a much greater extent with management aspects of U.S. participation in the Asian Development Bank (ADB). It generally avoids implicit or explicit substantive judgments on the operations of the ADB itself, judgments of a kind GAO witnesses have assured congressional committees they neither wish to make nor are equipped to make. This GAO approach to reviewing U.S. participation in international financial institutions is more in keeping with the intended scope of such reviews, although some inappropriate elements remain in the report.

While the report thus moves away from areas we found objectionable in earlier reports, we nevertheless find it necessary to disagree strongly with many of the assumptions and findings in the material legitimately relating to our management procedures. For convenience, my comments follow the order of presentation in the digest section of the draft report; comments on the digest, of course, refer equally to the underlying sections in the main text. An annex provides additional comment on specific portions of the draft report.

1. *Inaccurate statement on provision of information.*—The Digest statement at the top of page 2 about the absence of a system to provide meaningful information to contributing governments is at best misleading and should be deleted. At the present stage of Bank activity, there is a very adequate flow of information both to our full time staff at Bank headquarters and to Washington on loans, loan analysis and Bank operations specifically and in general. Annex 2 shows schematically the types of information available and the way in which it flows during the lending process. In view of the existence of this system, we think it erroneous to suggest either that there is no mechanism by which contributing governments receive information from the Bank regarding its loan proposals, policies, and operations, or that what is received is not meaningful.

If the Digest statement was intended to refer narrowly to the question of a system for postevaluation of completed projects, the comments in point 7 below indicating that it would be premature to attempt to measure project results when projects are not yet completed—should be taken into account.

2. *Report overlooks U.S. policy inputs.*—The digest (page 2) and related portions of the text of the draft report describe the U.S. role in relation to the Bank's

lending activities almost exclusively in terms of appraisal of specific projects. In taking this narrow view, the draft report overlooks the fact that we also affect ADB lending policy directly and without reference to any pending loan.

For example, the U.S. Director has actively participated in Bank policy discussions on the appropriate interest rate and commitment fee to be charged on loans; on the use of the Bank's local currency resources in its operations; on Bank financing of local rather than foreign costs of projects; on guidelines for country allocation of special funds lending; on whether or not the Bank should engage in financing of exports; and on guarantees or other forms of security to be required on its loans.

All of these topics were dealt with as general policy matters, with the outcome of the discussions constituting guidance to management in the formulation of subsequent individual loan proposals. They therefore represent a significant mechanism for the United States to affect Bank lending at a much earlier stage than the presentation of a project to the Board. We would like to see this important element in our management system appropriately acknowledged in your report.

3. *Challenge to effectiveness of present system not supported.*—Our considered view is that an effective management system exists for insuring that sufficient information on proposed ADB activities is acquired and is adequately appraised. This system is, moreover, being continuously improved, a fact notably underplayed in the draft report. Even if given the most critical interpretation, the sum total of the evidence put forward in the draft report demonstrates no more than very occasional underperformance that any system is liable to. Accordingly, we reject the suggestion that we have "not yet developed an effective system" to yield reasonable assurances regarding the utilization of funds we have contributed. If GAO feels that a postevaluation of projects through some audit mechanism is a needed management tool to meet the emerging demands of the future, it should state this view without characterizing the current situation as deficient. This is particularly true since we are, as noted in our other comments, pursuing this very objective as a timely evolution of our management system.

4. *"Insufficient information" charge unfounded.*—I strongly recommend deletion of the references on pages 2–3 to "insufficient information" and "dearth of information" as unfounded. Each Asian Bank project presented for Board consideration is supported by a comprehensive and detailed loan document averaging in excess of 100 pages. The scope of information provided is approximately the same as that for World Bank and Inter-American Bank projects, and neither of your reports on our participation in those institutions made a point about the adequacy of the information provided to governments as a basis for project approval.

5. *Judgment factor regarding "significant unresolved questions"; GAO technical analysis defective.*—The digest (page 3) contends that loans were approved while there were significant unresolved questions, with the implication that there were important aspects of which U.S. officials or the Bank were unaware. I wish to note that GAO has advanced few, if any, cases of technical considerations which the Asian Bank or the U.S. Government or both were not fully cognizant of at the time. The questions cited about individual projects in the draft report are questions drawn from the Bank's own analyses of the projects, and were the subject of full discussion by the management with the board of directors, including active participation by the U.S. Director.

It is clearly a matter of collective judgment for the National Advisory Council within the U.S. Government and the board of directors within the Asian Bank to decide whether any questions are significant enough to require postponement of board approval. It is, similarly, a matter of judgment to decide whether more overall progress can be made, on the one hand, by lending where improvements still to be made and simultaneously continuing to work on the borrower's problem, or, on the other hand, by refusing to lend until the borrower's problem is resolved.

The GAO technical analysis and field work in this portion of the report appears to be defective. The GAO argument as to two of the four examples of unresolved problems errs by analyzing the adequacy of road design criteria in terms of truck gross weight rather than the design loan per axle or per wheel. (See pages 7–8 of annex for detailed comment.) Moreover, the draft report's statement as to the surface condition of an ADB financed highway and its speculation as to the underlying roadbed conditions appear to be based on nothing more than casual visual observation, by GAO personnel who were not highway en-

gineers, of an unstated portion of the expressway on a single occasion before normal spring maintenace. In the absence of an engineering survey of the overall condition of the expressway—and in view of our knowledge that the highway has been satisfactorily functioning and is rapidly approaching peak traffic volume—we cannot regard GAO's field work as adequately done. Similarly, the GAO judgment appears to be hasty with respect to another of its examples, in which Asian Bank efforts set in motion in connection with a first loan to a relending institution bore fruit in a major way after a follow-up loan.

These deficiencies in the quality of GAO analysis give us little confidence that the GAO's view of what is a significant unresolved problem and what course of action is appropriate in the face of such a problem is necessarily sounder than that of the Asian Bank Board, the Asian Bank Board management, and the NAC review mechanism.

6. *Follow-up on implementation of projects.*—The comment on page 3 of the Digest as to the absence of follow-up on the implementation of projects gives inadequate weight to the internal mechanisms of the Bank and its board of directors for monitoring project progress. In addition, there has been a vigorous program in the past year and a half by the Office of the U.S. Director to make field visits to the majority of the Bank's project sites, which is described in pp. 40–41 of the draft report. The draft report's findings on this point do not appear to reflect either the board process or the action program undertaken by the U.S. Director. They therefore seem to be, at a minimum, out of date, and should be reconsidered.

7. *Absence of independent evaluative reporting.*—We do not believe that the absence to date of a formalized system for post-evaluation of projects has impaired the effectiveness of our current operations. In regard to the absence of such a system, the draft report should recognize, by more than a passing mention of the relative infancy of the Bank, that it would have been premature to attempt to measure the actual results of projects financed by the Bank when the projects themselves have not yet been completed. The majority of ADB projects were only authorized in the last two years, and at the time of GAO's review only two of ABD's 85 approved loans had yet had time to be fully disbursed, let alone exert an economic impact over a long enough time to permit appraisal.

It is important that some system for post-appraisal of project—along the lines established in the Inter-American Development Bank or an alternative of comparable effectiveness—be developed by the time such appraisals can usefully be carried out, and we are working on ensuring this. It is not a shortcoming of our management system, however, that the particular system favored by GAO had not been created in ADB as of the time of the GAO review. Your Digest statement (p. 3) would, therefore, be more objective if it said "while it is too early for a post evaluation system to be operative, the time is approaching when a mechanism along this line would be approprite."

The recommendations and suggestions contained in the digest (pp. 3–4) are generally constructive in nature. Although they are in certain respects lacking in specificity, in their broad thrust they reflect trends already underway for some time in Treasury's management of U.S. participation in the Asian Bank. I would like to offer the following observations on individual recommendations:

Earlier receipt of project information.—We agree that maximum use should be made of the project information provided by the Bank at earlier points in the loan preparation process, and have taken a number of steps in that regard in the last year or two. It should be understood, however, that at these earlier stages there does not yet exist a body of documentation to permit adequate appraisal of the loan. Accordingly, the recommendation would have to make clear that it aims only at supplementing our present appraisals based on formal loan documents before we could regard it acceptable in your final report.

Loan appraisal instructions.—This recommendation is identical to one we have already accepted in connection with your IDB report. We are prepared to accept it on the same basis if it appears in the final version of your report, that is we do not feel the absence of codified instructions has a significant effect on loan appraisals, but are nevertheless prepared to codify the various existing written and unwritten guidelines. I would, however, like to emphasize again that the present system in which trained and experienced senior officials from the concerned agencies have latitude to exercise judgment, has worked well. Codified guidelines will become self-defeating if they become rigid rules or are mechanically applied.

Role of U.S. posts overseas.—With the phasedown of U.S. AID missions overseas already in progress, it would be unwise to plan on a major reporting role for such missions with respect to ADB activities in their countries. Your recommendation would, therefore, be more acceptable if it suggested that embassies and AID missions report on ADB activities "to the extent feasible."

All our overseas missions have since late 1970 been provided with "early warning" notice of upcoming projects to be financed by international institutions, and have been providing available information since that time, particularly with respect to commercial opportunities such projects might afford to U.S. suppliers. Your recommendation can therefore have meaning only with respect to the implementation phase of Bank-financed projects. In that regard, I wish to state, first, that there is more adequate followup by U.S. field missions than the draft report gives credit for (and, incidentally, more adequate feedback to technicians in Washington of Bank action responsive to U.S. inputs than is acknowledged in the draft report.) Second, I wish to reiterate our view—previously expressed in connection with your IDB and World Bank reports—that such a recommendation is acceptable only if it is clear that our missions are not expected to carry out in-depth audits or uneconomically duplicate the on-site project supervision activities of the Bank or build up and maintain special staffs for these purposes.

Followup on project implementation and results.—This recommendation appears to cover no major area that is not also covered either by the immediately preceding or immediately succeeding recommendations. I recommend its deletion from the final report.

Establishment of independent review body.—As indicated in our comment on your World Bank draft report, we are sympathetic to your recommendation regarding an independent audit mechanism of the IDB group of controllers type. However it must be recognized that the IDB model is not an exclusive one, that alternatives differing in major respects—including the pattern now being evolved and tested in the World Bank—may better suit the Asian Bank context, and that a phased approach aimed at introducing a full system over several years might be a more realistic and therefore more fruitful approach. It would be desirable for your recommendation to be modified to recognize these possibilities.

ANNEX 1

COMMENTS ON SPECIFIC PORTIONS OF THE DRAFT REPORT

(1) *Role of Directors.* On page 11, the report says "the Board of Governors concerns itself largely with policy and overall ADB performance; the authority covering routine operations has been delegated to the Board of Directors and the President." It is not correct to imply, as this statement does, that the Board of Directors handles only routine operational matters. As a matter of fact, in addition of approval of loan proposals, the Board of Directors considers and makes decisions on broad policy questions. Policy matters are normally considered by the Board of Governors on the basis of recommendations prepared by the Directors. It is through the U.S. member of the Board of Directors that the United States exerts a substantial policy influence in the Bank, in addition to our role in relation to individual loans.

(2) *Special funds.* On page 13, in a discussion of special fund resources, the United States is listed as a contributor. This is correct only in the very limited sense that the United States has contributed $1.25 million to the technical assistance special fund. The distinction should be drawn , however, between the very modest fund intended to finance, on a loan basis, the capital costs of development projects. Only the agricultural special fund and the multipurpose special funds are for capital lending on a concessional basis and the United States has not contributed to either of these funds, while other countries have thus far contributed about $200 million.

(3) *Disbursement ratio.*—On page 17, it is stated that the Asian Development Bank is carrying a "very low ratio of disbursements to loan commitments." The sentence has no real meaning because no comparison is made. At a comparable stage of its development, the Inter-American Bank had a similar ratio of disbursements to loan commitments. When a lending institution has a sharply accelerating rate of loan commitments, as the ADB has had

since 1970, a relative lag in the ratio of disbursement to commitments is entirely normal.

(4) *Assurances on use of funds.*—On page 20, the draft report states "we believe that, as a minimum, the U.S. executive branch should have enough working knowledge and data to give firm assurances to the Congress that the funds contributed to the international organizations are or are not being used efficiently and effectively and accomplish intended objectives. In our opinion, the executive branch has not been in a position to give such assurances with regard to funds contributed by the United States to the ADB." The Treasury Department considers this expression of opinion wholly without merit.

Presumably, the GAO is referring principally to the fact that the Bank has not yet established an independent evaluation unit of the type that exists in the Inter-American Bank. The Asian Development Bank is a relatively young institution; its disbursements are low compared to disbursement of the Inter-American Bank and the International Bank for Reconstruction and Development. The number of projects it has completed is also correspondingly low. The time has only recently become appropriate to set up procedures and establish staff to cary out reviews of completed projects. The Treasury Department is moving to see that these things are done.

(5) *Post-evaluation of projects.* On page 21, it is stated that "regular independent, evaluative reporting to member governments relative to efficiency of operations, success or failure of ADB projects results achieved is virtually nonexistent." This statement is again factually correct but only because at this point very few ADB projects have been completed and been in operation long enough that they can usefully be appraised by an evaluation mechanism. The situation in many of its borrowing countries is such that the Asian Bank has often had to precede its loans with extensive technical assistance focused on project identification. Only then was it possible to carry out feasibility studies, engineering design is ready for presentation to the Board. It should not be surprising, therefore, that the bulk of the Bank's loans were only approved in the last 2 years, and these projects will still require several years before completion and being placed in operation.

(6) *Early Project Information.*—On page 28, it is stated that the U.S. Director must learn or be informed of problem areas in forthcoming ADB loan proposals early enough in the project formulation stage for him to have time to convince the ADB staff and management of the desirability of his changes. We agree with this proposition as a general matter, and have made important progress in the past year. The Bank's monthly operational information document now contains an expanded summary statement, showing country, amount and technical description for each proposed project from the time a loan application has been taken under study. In addition, a monthly updating is provided on the processing status of each loan in the appraisal pipeline. The NAC staff committee reviews this document monthly to identify problems relating to expropriation, suitability of financing, compliance with performance criteria, use of funds, etc. This monthly operations information document also provide the basis for our system of "early warning" to U.S. field mission about forthcoming loans.

The fundamental difficulty in raising technical issues early in loan processing is that only some problem areas can be isolated much before the final, formal loan documents are prepared, while others cannot because they depend on the specific outcome of final negotiations with the borrower. It would be useful if the report made this distinction.

(7) *Appraisal Time.*—We do not agree with the opinion expressed on page 29 that time pressure results in hasty analyses of a dubious quality by the National Advisory Council or that it cramps effective intervention by the U.S. Director when problem proposals are identified. In fact, we do not agree that the date-comparison evidence laboriously assembled by GAO even supports its own contention. Analysis of the tabular data on pages 31–33 shows that the mean number of working days was 3.2. We believe this is ample time for an experienced technician to identify problems in a loan document. In the majority of cases in which less time was available, the summary cable from USADB was available—sometimes as much as 11 days in advance—to provide technicians a basis on which to draw tentative conclusions.

The GAO analysis neglects numerous other factors: the availability of advance airmail copies of loan documents prior to regular NAC distribution; the additional time available to NAC agencies between staff committee discussion and council vote; the right of agencies to reopen consideration if late documents

reveal issues not identified in cable information; and the use of telephonic communication with USADB to clear up questions prior to NAC staff discussion.

As far as the timeliness of instructions to the U.S. Director is concerned, the date-comparison material tabulated by GAO also tells very little. First, the draft report makes no attempt to distinguish between cases where Washington had no objections and cases where Washington wished points raised. There is obviously no need for long leadtimes in the majority of cases where no issues are to be raised. Second, it notes but does not give due weight to the fact that the cabled instructions are only the formal recording of the NAC result, or that telephonic instructions are provided prior to the cable instruction when a problem exists.

The entry for the Cotabato-General Santos Road project in the Philippines provides a useful example. Although the bare record shows that the U.S. Director had 2 days between receipt of a formal instructions telegram and board discussions, he had in fact been consulting extensively, on the basis of interim telegraphed and telephoned instructions from Washington, with bank management and other directors over a 3-week period—and was ultimately successful in changing a key procurement provision. We consider this project to be both a good example of effective U.S. intervention within the framework of our management system and a good demonstration of the weakness of GAO's methodology.

In general, therefore, our view is that this aspect of the draft report involves unwarranted or overdrawn conclusions as a result of the mechanistic application of the date comparisons. We can agree that more time is generally better than less time, but not that our procedures are seriously defective in practice.

(8) *Timeliness of field comments.*—On page 35, the draft report states that country team comments generally arrive in Washington after NAC meeting dates and occasionally after votes are taken. This statement is in error because a systematic error was introduced by GAO in performing the tabulation on which it is based. GAO personnel were apparently unaware that field telegrams are distributed directly to technicians in various agencies through normal channels. In recording the availability of cables, they therefore added an extra day to the receipt dates in Washington as furnished by Treasury, possibly under the mistaken impression that it was necessary to allow for distribution through the NAC Secretariat. The base dates for all of GAO's subsequent analysis are therefore in error.

[It should also be noted that the information we supplied for the tabulation on page 37 regarding the Malacca water supply project in Malaysia, which indicates that the Embassy cable arrived 45 days after the NAC staff committee meeting and 42 days after the NAC vote, was in error. In fact, the Embassy cable arrived in ample time 4 days before the staff committee meeting and 7 days before the NAC vote. The cable on which the tabular entry was based referred to another loan, and itself arrived prior to the relevant NAC staff meeting.]

When the arbitrary introduction by GAO of an extra day is eliminated, the tabulation will show that a majority of the 33 responses surveyed arrived on or before the date of the NAC staff meeting and were available for the meeting. Further, none of the six responses that arrived after the date of the NAC vote raised any objections to the loans. Perhaps more importantly, every one of the 33 responses arrived prior to ADB board action, so that it would still have been possible to reconsider the U.S. Director's instructions if the field comment had raised serious objections. Nevertheless, we are now considering having initial country team comments forwarded at an earlier stage keyed to NAC consideration of the monthly operations information document, to supplement the present system.

(9) *Feedback of loan information.*—On page 42, it is stated "several agency officials said they never hear of a loan again after it has been approved in the NAC meeting, yet they felt that feedback on these loans could be very helpful in considering proposals for similar loans in the future." Such comments are, of course, affected by the varying degrees of utilization of available feedback information as among individual officials. As a factual matter, the draft report should at least note that the U.S. Director does communicate to Washington the outcome of issues he is instructed to raise in the Board and that all ADB loan documents routinely include a status report on loan projects currently underway in the particular country. In cases where a second loan is proposed to a specific entity, the loan document provides Washington officials with very detailed information concerning the first loan. The draft report itself gives an excellent example of this on page 57, although the reference at that point is in another context.

(10) *Individual project comments.*—With respect to the statement on page 50 that favorable U.S. decisions on loans were made while there were still significant unresolved problems. GAO personnel may well have been misled by the broad freedom of discussion in the NAC staff committee. While proposal, not all questions raised at NAC staff committee meetings are sufficiently important to warrant delay in approval procedures. Frequently, they are requests for clarification or method or material presented in loan documents or expressions of concern about relative emphasis placed on various points. In many instances, it suffices to bring these questions to the attention of Bank management or other Directors.

In short, the mere fact that an issue was raised in the NAC staff committee, or that an issue raised in an ADB loan document was discussed in the committee, does not make that issue ipso facto a "significant unresolved question" requiring postponement of the loan.

The comment on the same page that "U.S. decisions on matters that would appear to involve purely technical and economic issues may have been overshadowed by foreign policy considerations" is purely speculative and should be dropped.

The more serious question in this part of the report is GAO's use of the details of specific project situations, ostensibly to illustrate how the U.S. management system works, but in fact to make a back-door evaluation of the projects themselves. In order to remain within GAO's own guidelines on the appropriate scope of its examination, there should be eliminated from pages 50–60 of the draft report (*a*) references to the substantive aspects of the project involved, (*b*) GAO's impressionistic observations of the present condition of one of the projects and (*c*) the unsubstantial predictions about the results of proceedings with the projects cited. This would still permit GAO to abstract and put forward whatever management-relevant lessons it believes can be learned from the examples it selects.

(11) *Defective GAO technical analysis.*—The GAO argument in pages 50–56, involving two of the four projects used as examples, employs a rudimentary approach and entails a fundamental error in analytical technique. The assertion is that the United States did not effectively object to two loans in one country that financed, respectively, "oversize trucks and underdesigned highways". The entire argument presented in the draft report, however, is in terms of possible excessive overall gross weights of trucks in relation to highway weight-bearing capacity. It should be self-evident that gross weight analysis is erroneous, and that the relevant engineering consideration is the per-axle or per-wheel load of trucks in relation to the design load of the highway. Theoretically, extremely large gross weights can be accommodated if sufficient axles and wheels are provided to spread the loan to acceptable unit values. The fact in the particular cases cited are as follows:

(*a*) The country's motor vehicle regulations allow maximum single-axle loads to 10 metric tons.

(*b*) The design specifications for the highway were 18 tons for tandem axles and 14.4 tons for a single axle, and the highway was built to these standards.

(*c*) All trucks imported under ADB financing have axle loads less than 10 tons, in compliance with national regulations.

(*d*) Actual truck axle loads in current traffic on the highway average 7 tons.

It is clear that both the ABD-financed trucks and the current mix of other trucks using the highway comply with national axle load standards, and these standards are well within the design parameters of the highway. These design parameters, while varying from international design standards, conform to national standards, were endorsed by a respected international consultant firm, and were accepted by the Bank as an adequate and economical basis for implementation of the project. Average daily traffic on the highway is about 10,000 vehicles per day, approximately 50 percent of which are trucks. The highway is thus performing very satisfactorily, and is approaching maximum capacity use, so that the Government is now considering how best to install additional highway capacity in the area.

With respect to the replending credit in Thailand cited as an example, the draft report merely notes as "uncorrected weaknesses" as of late 1969, those factors presented by the management to the Bank's board of directors. The

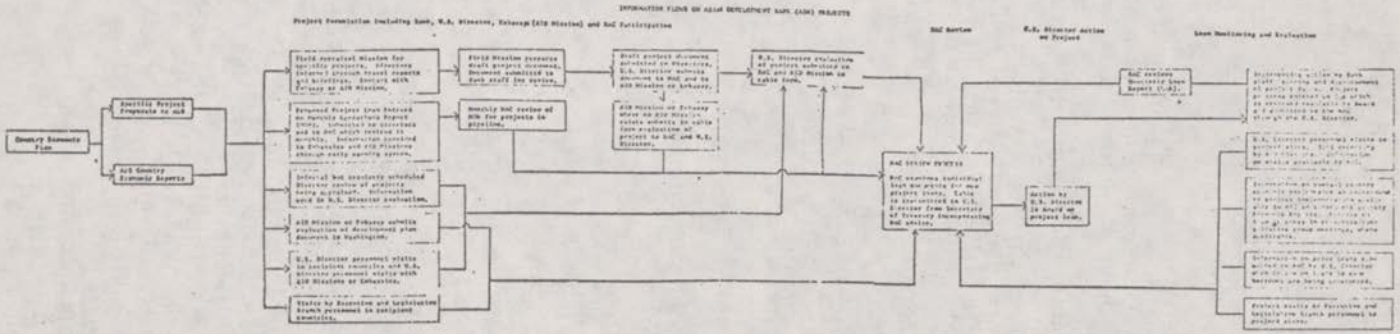
fact is, however, that since the Bank first established a relationship with this borrower, it has engaged in an ongoing program to help the latter improve its operations, The Bank has monitored this loan very closely and the results of its efforts began to be felt about 2 years ago. Since then, under a new general manager, the borrower's technical services have been improved, an internal reorganization has clarified lines of authority, consultants and other technical assistance were obtained, followup procedures were strengthened, and substantial progress has been realized in eliminating arrears of sub-borrowers.

Judged in the light of events, the draft report's concern seems to be a hasty judgment. This loan appears to be a rather good example, not of the wisdom of not lending whenever a borrower is found to have "unresolved problems" but of the correctness of the Bank's policy of lending and working at the same time constructively on resolving the borrower's problems. We believe it appropriate that our management system includes sufficient flexibility to support the Bank's approach to such situations as the one just cited.

* * * * * * * *

The main text mentions on page 8 that certain documents were not made available to GAO. We feel we have cooperated fully with your representatives and provided very extensive documentation. In our view, the extremely limited materials not made available to GAO were by no means critical to the preparation of the draft report. We believe your statement should acknowledge the almost complete freedom of access to materials rather than emphasize the rare exception based on legitimate grounds of protection of confidentiality of views expressed by other governments.

ANNEX 2



Mr. HENNESSY. I think we have changed the procedures enough so we have 3 weeks between the time when the loan document comes out and the time we have to vote on it.

I think there was a misunderstanding on their part. There is also an early warning system when we see a project coming down the pipeline and we ask for information about it. We ask about it when it first comes on the operational summary which may be 2 years in advance. I think we submitted to the committee copies of the early warning systems documentation and the information we get.

So we know before it comes up and we can query the bank and have an input from the aid mission. There is a time constraint which does not exist in other banks. Instead of the normal 10 days we have asked for 3 weeks in this bank.

Mr. SHRIVER. Is that enough?

Mr. HENNESSY. If we did not have the prior look it would not be enough. We track it for a 1- or 2-year period as it comes through the pipeline. I think in this context the 3-week period is enough.

Mr. PASSMAN. Do you consider this auditing system adequate?

Mr. HENNESSY. I do.

Mr. PASSMAN. Why should we not abolish all of these internal audit systems we have in America? Every agency we have has a very large internal auditing system. If you can operate funds of this magnitude without any auditing system, I do not know why we couldn't save billions of dollars by abolishing all of the auditing systems we have in every agency of Government.

U.S. PUBLIC DEBT

Let us look at the large public debt we now have.

It is going to keep increasing if we do not keep foreign aid under control. It is no reflection on you because you do not administer this program. You are just one of the secretaries who does his best to justify it.

When you are through, you take another job and another gentleman takes over.

As you stated earlier, we had to borrow this money before we could give it away. We actually have a true public debt of $1,800 billion. The public only hears that $455 billion is the public debt.

Don't be too sure of getting this aid money, because there are a lot of hurdles before you get this money. The true public debt, and you should know this better than I, is $1,800 billion.

In addition to the borrowed money which people believe is the only public debt, you must consider another 117 statutes on the books which say we will give you certain sums of money in future years for service you previously rendered and in which we created no reserves. It comes out of current revenue.

The interest on the public debt is running $26 billion annually.

Mr. HENNESSY. Somewhere around there; yes.

Mr. PASSMAN. Veteran benefits, and I supported them, are running in the neighborhood of $12 billion annually. The retired military personnel program is about $4,700 million annually. You go on and on with these statutory obligations, which are just as much obligations as borrowed money, and all we do is pass the laws making promises and borrow money to give away.

Mr. HENNESSY. If I could make a point in this regard, I think the size of the debt is a question of concern to us in the Treasury as well as everyone else.

Mr. PASSMAN. Why don't we cut it down then?

Mr. HENNESSY. One factor tends to be overlooked, and that is that as a percentage of our total production or GNP it has gone from 70 percent way down to 40 percent.

In terms of our ability to repay, it is less.

Mr. PASSMAN. The wealthier you get, the freer of debt you are supposed to get. You have no right to compare it to GNP. What if you got into a recession and the GNP dropped by 30 percent, then what argument would you use in trying to service the public debt?

Mr. HENNESSY. We would be in a very difficult situation.

Mr. PASSMAN. That is right. You argue as if you had some guarantee that things will never change.

You do have these peaks and valleys, ups and downs. We have not devised a plan to stop them. It is just a question of very, very poor management in our fiscal policy.

ADB ORDINARY CAPITAL INCREASE

Now may I ask you this question: The budget indicates that an additional authorization will be requested in fiscal 1974 for an additional U.S. contribution to the ordinary capital of the Asian Development Bank.

Could you tell the committee what will be the amount of the total authorization request and what will be the amount of the fiscal 1974 appropriation request?

Mr. HENNESSY. The 1974 request is $121 million. The authorization request is three times that because it goes over a 3-year period, or $362 million.

I am rounding it off.

Mr. SHRIVER. Has that come up yet?

Mr. HENNESSY. The authorization has not been sent up by OMB. We expect it to come up shortly.

Mr. PASSMAN. Have you familiarized yourself with any of the projects that have been financed under this program yet?

Mr. BEACH. I have had one occasion in the Philippines to have a look at an integrated project that we will be considering in the next couple of months.

Mr. PASSMAN. You have literally hundreds of projects, do you not?

Mr. BEACH. In the last year we approved 44.

Mr. PASSMAN. I mean the applications number in the hundreds?

Mr. BEACH. I don't have the specific information.

Mr. PASSMAN. A lot of these are capital investment projects and public works projects?

Mr. BEACH. Yes.

Mr. PASSMAN. Would you say you approve projects like flood control, rivers and harbors, revetments and roads?

Mr. BEACH. Yes. Certainly transportation projects.

Mr. PASSMAN. In other words, it pretty much covers the waterfront.

Mr. BEACH. Heavy infrastructure, yes.

Mr. PASSMAN. Do you have any record of how many projects have been turned down for lack of funds?

Let me put the question this way: You have ample funds on hand to fund all applications approved?

Mr. BEACH. All applications so far approved.

Mr. PASSMAN. Do you have sufficient funds on hand to fund all applications presently approved?

Mr. BEACH. I think the answer is no to that.

Mr. PASSMAN. What ones do you have pending that you don't have funds to cover?

Mr. BEACH. That have been approved, yes.

Mr. PASSMAN. Do you know of any projects that have been started which you have had to freeze the funds for lack of money?

Mr. BEACH. None that have been started.

Mr. PASSMAN. All right, you have answered the question. You do not have to elaborate. Let me say we have literally hundreds of projects in the United States almost bordering on an emergency that we have had to stop completely because of lack of funds and other instances where they put the money in budgetary reserves. I can tell you and look you in the eyes when I do it that there has never been a foreign aid project held up for lack of funds. That is one thing that is frightening. These international organizations get this money and proceed full steam ahead and members will vote for it, and yet the same projects in their respective districts are being discontinued or slowed down for lack of funds.

Has the United States entered into a formal agreement with the ADB concerning this proposed ordinary capital contribution?

Mr. HENNESSY. No, we have not. For that reason our capital share has dropped from 19 to 8 percent.

Mr. PASSMAN. We do not have any share unless we want to be gullible and give our money away.

We hope these programs can be abolished and bring some of you people home. I assume you have made it perfectly clear that any agreement is subject to subsequent examination by Congress and subsequent actions on the appropriation requests?

Mr. HENNESSY. That is correct.

After discussing this with you we made that adequately clear in this case.

U.S. SPECIAL FUNDS CONTRIBUTION

Mr. PASSMAN. You are asking for the $100 million for the special funds we cut out last year notwithstanding?

Mr. HENNESSY. I think the $100 million the Congress never voted upon.

Mr. PASSMAN. It was cut out, Mr. Secretary, and you know we cut it out.

The committee cut it out and the House backed the committee.

Mr. HENNESSY. A final bill never came to the House. It is a continuing resolution.

Mr. PASSMAN. Certainly it passed the House. Why don't you do your homework. I will bet you my job against yours that it passed the House.

Mr. HENNESSY. It passed the House but there was no conference.

Mr. PASSMAN. Certainly not, because the subcommittee, the Full Committee and the House said, thumbs down, no money. Isn't that right?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. You better start living with some of these decisions.

Why is it necessary for our country to become further involved when we take into account the said plight of our fiscal affairs? Why do you have to come in and ask for an increase?

Mr. HENNESSY. I think that is a very good question. I think in this particular case in Southeast Asia we are trying to disengage from a very large physical presence. This Bank allows us to operate there with a minimum cost with a minimum U.S. presence. I do not think you or others would suggest that the United States completely get out of business in Southeast Asia.

Mr. PASSMAN. We should bring your people back home and let you get involved in America so you will contribute to the economy rather than taking away from it. It is all right to have the Export-Import Bank because these people furnish money to finance U.S. commodities. They have a very good record in making a profit for the Government and the manufacturers. But there is no profit in this. This is outright giveaway. There is no provision for any return.

In addition to these little tidbits, and we are nickeling and diming ourselves to death, all of these nations that you have mentioned are getting aid out of other spigots, are they not?

Mr. HENNESSY. Most of the ones we mentioned are getting bilateral aid from us and other countries.

Mr. PASSMAN. And also aid that we contributed.

Mr. HENNESSY. In some cases yes, and in other cases, no. In all cases the bilateral amounts have gone down. This Bank has picked up more in Korea and we diminished our own contribution.

Mr. PASSMAN. Korea is waxing fat with wealth, they have a very favorable foreign exchange balance, they have a very strong economy, and they are a very good customer of ours. I know this year when we had a rice sale to Korea they bought 150,000 tons of rice for spot cash. It gives you an idea when the chips are down that a lot of these people have adequate reserves.

Mr. HENNESSY. I think Korea is a case that has been successful.

Mr. PASSMAN. Let us go into Vietnam where we have a very high program.

Mr. HENNESSY. Up to now very little has been, if any, for economic development.

Mr. PASSMAN. What do you mean economic development? Would you call building water sewers, tanks, railroad lines, brick buildings, new courthouses, and acquiring land for people economic development? That is what you are doing in Vietnam. I am embarrassed to have to ask you to state factually for the record that is true.

Mr. HENNESSY. It has happened in economic development, yes.

Mr. PASSMAN. You just indicated it was otherwise. You have these AID programs pouring in by the hundreds of millions. Incidentally, I am going to support the administration as far as I can on these items. Do you realize that both Korea and Vietnam have said categorically that they are willing to accept future aid on a loan basis and not a grant basis?

Mr. HENNESSY. I would hope so.

Mr. PASSMAN. Have you recommended to our President and the rest of the executives to amend the budget request and come in and ask money for loans rather than grants? They are ready right now to switch to loans from grants for the major programs.

Mr. HENNESSY. In the Asian Bank all they get is loans. I think their ability to pay back loans is increased. I am not sure of Vietnam.

Mr. PASSMAN. I think in all spigots of foreign aid we have some $18 billion in requests this year.

Mr. HENNESSY. Your accounting method and ours traditionally differ.

Mr. PASSMAN. I am talking about aid and assistance, where we advance our money either on long term, short term or possibly medium term basis for U.S. aid.

Am I in the ballpark with that figure?

Mr. HENNESSY. Not unless you add authorizations and appropriations.

Mr. PASSMAN. I am talking about the requests contained in the budget.

Mr. HENNESSY. Both authorizations and appropriations.

Mr. PASSMAN. You do not know whether you are going to get an authorization.

I am talking about the amount requested, proposed in the budget itself.

Mr. HENNESSY. Both for authorization and appropriation.

Mr. PASSMAN. As we rewrite the record now we find that the foreign aid program has cost us net about one-quarter of a trillion dollars, about $250 billion and still going strong. You noticed in the paper yesterday where the large nations of the world are getting ready to beat the devil out of the dollar again. Devaluation is right around the corner, isn't it?

Mr. HENNESSY. It certainly is not.

Mr. PASSMAN. How do you know it is not when the dollar took a good beating yesterday on the European markets?

He shakes his head one way, and how are you going to answer? You answered in the affirmative, did you not?

Did you read it?

Mr. BEACH. I read the dollar was under pressure.

Mr. PASSMAN. We had great reductions in many instances. It is a frightening deterioration.

Mr. BEACH. The headlines.

Mr. PASSMAN. They say categorically we have lost the ability to manage our fiscal affairs. It is being freely advocated that right around the corner we are going to again have to devalue the dollar.

Mr. HENNESSY. I would not want to give any substance to that.

Mr. PASSMAN. I don't want it to happen. You people said the same thing last year but a few weeks later it happened just the same. We can speak the facts because these kinds of programs are causing the dollar deterioration. You people are nickeling and diming us to death.

You scattered the foreign aid requests all over the budget and built these multilateral organizations up. You have been able to hoodwink the Congress in the past under the premise that the requests for the international financial institutions were authorized and you went out

and made commitments and then you said we have no alternative but to provide the money.

If I remember correctly, we were told last year that the $100 million for the U.S. contribution to the Special Fund of the Bank was strictly voluntary and was entirely a U.S. decision and did not involve any negotiations with other nations. Is that still correct?

Mr. HENNESSY. There has never been any legal commitment.

Mr. PASSMAN. There is no negotiation involved and we can either provide the funds or not provide them.

Mr. HENNESSY. There is no legal commitment. That is all I am saying.

Mr. PASSMAN. There certainly would not be any moral commitment.

Mr. HENNESSY. I touched on this in my opening statement on page 12.

ASIAN DEVELOPMENT FUND

Mr. PASSMAN. That is good. I notice from a letter from the Treasury Department that there have been discussions by the Bank to replace the voluntary special fund contribution system with a formal agreement special fund contribution system which would require each country to agree to a specific contribution the way other institutions operate, is that correct?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Then that is leading us into some of these heavy involvements we have with the International Development Association and the Inter-American Development Bank and some of the others.

Isn't that really what we would be getting into?

Mr. HENNESSY. Or it could lead us into a situation where it is advantageous to the United States.

Mr. PASSMAN. That is your opinion and not mine. I said would that lead us into that type of situation where we would get involved where you would argue we could not cut it because there has been an agreement with other nations? Wouldn't that be the situation that you would be leading us into, regardless of your opinion or mine?

Mr. HENNESSY. What we would get into is a situation where we would know how much others are putting up and others would know how much we are putting up.

Mr. PASSMAN. That is a good statement.

Did I make a statement of fact? That would lead us into the same category that we have in the IDA, and the Inter-American Development Bank?

Mr. HENNESSY. If you are referring to the aspect that everyone agrees to a certain amount, it is a question of when would we involve Congress. I think you made it pretty clear before we take up any new commitments, no matter what they are, that we have to have full consultation and it has to be clear it is subject to congressional appropriation.

ORIGINAL U.S. ORDINARY CAPITAL SUBSCRIPTION

Mr. PASSMAN. Is it not true that the United States borrowed from the American people $140 million in fiscal year 1966 and gave it to the Asian Development Bank as part of our contribution?

Mr. HENNESSY. Our original capital subscription.

Mr. PASSMAN. Let me ask the question again.

We want a direct answer. Is it not true that the United States borrowed from the American people $140 million in fiscal year 1966 and gave it to the Asian Development Bank as part of the U.S. contribution?

Mr. HENNESSY. No. We paid in a small percentage of that and the rest was a U.S. Government guarantee which allowed them to borrow from private bankers.

Mr. PASSMAN. We appropriated $140 million.

Mr. HENNESSY. Most of which was guarantee capital for which the U.S. Government did not have to borrow.

Mr. PASSMAN. I say we appropriated $140 million.

Mr. HENNESSY. That is correct.

Mr. ROYBAL. It is not clear to me whether or not the money was appropriated.

Mr. HENNESSY. $40 million was paid in and the balance of $100 million was callable capital which allowed the Bank to float bonds on the world capital market.

Mr. PASSMAN. Then the full amount of $140 million was appropriated.

Mr. HENNESSY. It was appropriated but it had no budgetary impact. Unlike OPIC where only a small percentage of what they actually go out and contract is appropriated, in this institution 100 percent of what the United States could ultimately be responsible for if they defaulted on all their bonds and every other country defaulted on their obligation, there would be the amount the United States would have to pay.

Mr. PASSMAN. Let us put it in the proper perspective because it has been testified to in previous years. You asked for an appropriation of $140 million and the Congress did appropriate $140 million.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. It was stated at the time that the other nations would not feel safe if we just gave the credit of the United States so they wanted the money appropriated in case of any defaults and they could immediately draw the money down. I want to ask you this question: I believe that the United States had to pay about 6-percent interest on funds borrowed at that time to give to the Asian Development Bank, is that correct?

Mr. HENNESSY. You are looking at the average cost of borrowing for the U.S. Government at that time. I am not sure whether it was 6 percent or not.

If you are suggesting——

Mr. PASSMAN. I am asking questions. I am not suggesting anything. I am making a record so as to establish our stupidity. I think you know what I am doing.

Don't get off the subject because we will return to it. I believe that is in the general neighborhood, the 6 percent that we were paying to borrow money in 1966?

Mr. HENNESSY. I do not have the figures at hand. It does not seem out of line. For the general cost of United States borrowing to finance the budget that figure sounds in line.

Mr. PASSMAN. Is it not also true that shortly after the United States provided her paid-in contribution to the Asian Development Bank, the Bank turned around and invested this in U.S. Government securities

which our Government had to pay an additional interest rate of 6 percent?

Mr. HENNESSY. While they were waiting disbursement the Banks did leave the funds in deposit.

Mr. PASSMAN. If you people had been on the ball you would have said we need this money but we will pay it in 18 or 20 months hence rather than borrow this money at 6 percent, turn it over to the Asian Development Bank and borrow it back from them for 6 percent.

Isn't that the equivalent of 12 percent with no return?

Mr. HENNESSY. At the outset the decision was made that the Bank did not have any income because the loans did not go out yet.

Mr. PASSMAN. They made a terrific profit that year. They borrowed the money in the general area of 6 percent.

We turned it over to them and borrowed it back and paid them another 6 percent, which made 12 percent. Isn't that the way it comes out?

Mr. HENNESSY. I am not sure of your figures.

Mr. PASSMAN. Let us check it.

Mr. HENNESSY. You can check the figures but your method of accounting, you can claim we borrowed to pay it in. I can say that it came out of general budgetary receipts.

Mr. PASSMAN. We had to pay 6 percent to borrow it.

You said for the record we had to borrow the money. Assuming we borrowed it because we had a tremendous deficit that year and paid 6 percent, we turned it over to them and borrowed it back at another 6 percent. We are paying 12 percent and not getting any of the money back.

Mr. SHRIVER. Mr. Chairman, I presume that year we had a lot of money coming in to the Treasury from my taxes and your taxes and everybody's taxes. Which dollars are you talking about?

Mr. PASSMAN. We had a tremendous deficit that year.

Mr. SHRIVER. We have it every year.

Mr. PASSMAN. Two wrongs don't add up to make a right. My dear friend, in the same year, you had projects you wanted funded you did not get funded and I had some I did not get funded.

Mr. SHRIVER. In fact, recently many cities, some in my own district, used their revenue-sharing money to buy U.S. Government bonds.

Mr. PASSMAN. If I may say humorously there is no such thing as revenue sharing. It is sharing the borrowing. That is about right, is it not?

Mr. HENNESSY. No comment.

Mr. PASSMAN. That is a yes. That is good enough. I do not believe the United States would be eligible to receive loans from the Asian Bank under the present charter.

Mr. HENNESSY No.

STAFF LOAN PROGRAM

Mr. PASSMAN. It is a one-way street. We do not like to do this but I think it is good for the record. Possibly by making the record we certainly hope you go out with a strong determination that the present Japanese President who succeeded the other Japanese President of ADB won't get into this. I would like to read from page 209 of the fiscal year 1971 hearings concerning the loans the Asian Development Bank made to their employees:

Mr. PASSMAN. Do you know how many loans were made, to how many employees and in what amount?

That is secret information of the President only, is that correct?

Mr. ZAGORIN. The specifics.

Mr. PASSMAN. It is secret information specifically for the President of the Bank, is that right?

Mr. ZAGORIN. Yes, sir.

We have to admit as fellow Americans and taxpayers this is quite an arrogant attitude, is it not?

Mr. HENNESSY. That information was supplied for the record, Mr. Chairman.

Mr. PASSMAN. I asked if you agree with me. I am not trying to put words in your mouth.

Wouldn't this appear to be a rather arrogant attitude on the part of the Bank when our own Director was denied that information?

I am reading the direct questions and the direct answers from the record. Did you read that part of the record?

Mr. HENNESSY. I certainly did.

Mr. PASSMAN. I am asking the question for this reason. What would be your position if you found that the present President of the Asian Development Bank had the same attitude? Would you challenge him?

Mr. BEACH. I think we certainly would and we did in this case.

Mr. PASSMAN. Nevertheless, I did quote this information correctly, and if the situation was corrected, I believe you would have to give this committee credit for it. Things like this are somewhat frightening. There is no use for us to run from the facts. I would be in hopes if that attitude should prevail that you will try to disagree and in some way straighten it out.

Mr. BEACH. We have had a very pleasant and very cooperative 5 months with the new president, sir.

Mr. PASSMAN. I wish you well. However, I don't wish you well in giving away the American taxpayers' dollars.

The United States has not contributed to the special fund of the Bank, is that right?

Mr. BEACH. That is correct.

Mr. PASSMAN. When was the first request made for U.S. contributions to the special fund of ADB?

Mr. BEACH. If I remember correctly, that was first raised in 1967.

TYPES OF PROJECTS FINANCED

Mr. PASSMAN. I think we mentioned earlier that funds out of this Bank covered pretty much any type of capital investment or public works project such as flood control, river or harbors, or revetments.

Mr. BEACH. Heavy infrastructure.

Mr. PASSMAN. Define heavy infrastructure.

Mr. BEACH. The Bank has emphasized electric power generation and distribution, transportation, which means highways. We have gotten into construction of dams, irrigation projects.

Mr. PASSMAN. Some of those already underway.

Mr. BEACH. Yes.

Mr. PASSMAN. Some of them brought to completion.

Mr. BEACH. Yes.

Mr. PASSMAN. How old is the Bank?

Mr. BEACH. The Bank began business at the end of 1966. It is almost 7 years old.

Mr. PASSMAN. Here is why I asked that question. We have a double standard. We have no control over these international organizations. We never know what project in what country, what amount, or for what purpose the funds will be spent until after the fact. As we come here to America under the Corps of Engineers, we deal with the same projects that you just mentioned for the record being financed by the Bank. Do you know for projects in the United States it takes 17 years, 11 months from the time this project is started until it is completed?

A chart appears on page 204 of the Public Works hearings for fiscal year 1973, indicating this time lapse. This is how long it takes, and we have not found any way to shorten it. Before you get any money for these projects in the United States, you go all the way from the bottom to the top. Unless you have a favorable proven benefit cost ratio, you do not get the project authorized. Would you have a look at this chart so you know we do have a double standard, one for well-supervised, well-engineered projects, and one for foreign projects, where if there is any supervision at all, it is probably limited. Read this chart.

Mr. BEACH. May I make this comment?

Mr. PASSMAN. Certainly.

Mr. BEACH. The Bank has a professional staff of qualified engineers and so forth that are very much involved in the initial stages of projects.

Mr. PASSMAN. I did not say they were not involved. Don't try to refute what I said. In America, the same projects that you do in foreign countries in 4 or 5 years, require 17 years, 11 months to do in the United States. What kind of a system do they have that is so superior to ours?

Mr. BEACH. I am not totally familiar with our system.

Mr. PASSMAN. I want to be helpful. Don't you think it would be good to study the system that we use in this country before you get involved in others?

This is a respectful suggestion. You ought to read how we get the projects in this country. These are not my figures. These are the Corps of Engineers. That is the average time required for finishing the projects.

That is for all projects in all 50 States. I don't know how you people with a different type of engineering staff could do it in a third of the time. If you can, then we need the engineers.

Mr. HENNESSY. They are different types of projects.

Mr. PASSMAN. Flood control, rivers and harbors, and dams. That is what we are building all the time.

Mr. HENNESSY. We will submit for the record the distinction between the types of projects.

Mr. PASSMAN. I do not know whether you will or not. Let us see what you are going to insert for the record. I asked you categorically if this was the same type of project, and you said yes.

I said, does it cover flood control, rivers and harbors, and dams, and you said yes. If you have a different type of a project, why don't you give us the information now.

Mr. HENNESSY. I think we have to analyze the two types of projects The construction of the Grand Coulee Dam takes one time period, and

the construction of a dam on a small river takes a different time period.

Mr. PASSMAN. You always have to have an answer, but you don't erase facts.

Mr. SHRIVER. You do not have to get the approval of any elected group of people.

Mr. HENNESSY. Once the funds are approved, they disburse it as fast as the engineering goes through.

Mr. SHRIVER. That takes time, but it gives some cushion for the people putting up the money.

Mr. PASSMAN. If it is good for America to use this type of process to get these projects started and completed, and it has been in effect since we have had this type of project, then I am going to have to endorse the Corps of Engineers as being a good outfit, because I work with them all the time. I don't find many mistakes they made. I believe 1971 was the first year since 1888 that we had a trade deficit. I think it was in the neighborhood of $2 billion. We thought this would be a one-time proposition. But in 1972 this trade deficit reached $6,400,000,000. I believe it is frighteningly high at this time, is it not?

Mr. BEACH. I do not know what the current figures are.

U.S. BALANCE-OF-PAYMENTS PROBLEMS

Mr. PASSMAN. I am talking about the trade deficit in the first two instances and the balance-of-payment deficit in the third. It is one of the highest.

Mr. BEACH. The trade deficit in 1972 was the highest.

Mr. PASSMAN. You only had two since 1888 and that is 1971 and 1972. With respect to your balance of payments, didn't it reach an alltime high last year?

Mr. HENNESSY. It was higher in 1971. The basic balance improved $20 billion. It went from $30 billion deficit to $10 billion deficit.

Mr. PASSMAN. The first quarter of this year, what is the rate?

Mr. HENNESSY. The first quarter this year ran I think close to $10 billion because of the speculative capital outflow that took place in February.

Mr. PASSMAN. That means you send many more dollars abroad than you bring home. That is in simplified terms.

Mr. HENNESSY. In simplified terms, yes.

Mr. PASSMAN. Most of us when we go abroad see in many places they are actually running from the American dollars. They do not care whether you spend dollars with them or not. There are some places you have to discount the dollar to pay the hotel bill. In other places they will not take the dollar and you have to exchange it for other currency to check out of the hotel.

Mr. HENNESSY. I think the dollar is convertible in every country.

Mr. PASSMAN. I am talking about hotels. The ones that will take them want them at a discount.

You do not mean to tell me you are not familiar with what has been going on in the past 6 or 7 months?

Mr. HENNESSY. I am very much involved and aware of what is going on the past 7 months.

Mr. PASSMAN. You didn't answer as though you knew. I just came back from a trip and I found that prices were about 20 percent higher than in America.

[Discussion off the record.]

OBJECTIVES OF FOREIGN AID

Mr. PASSMAN. We refer to these Southeast Asian nations as developing nations, do we not?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. We would assume if they are developing nations that sooner or later they will become self-sufficient and have substantial foreign exchange credits or reserve surpluses.

Mr. HENNESSY. Yes. That is certainly the objective, yes.

Mr. PASSMAN. If that objective cannot be reached, then it is money down the drain, is it not?

Mr. HENNESSY. If you do not achieve the objective which you set out to achieve.

Mr. PASSMAN. Our objectives are to help these people build strong economies and become self-supporting.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. If those objectives cannot be met then it is water down the drain. If those objectives are not obtained in the future?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Let us look at the record. I believe after World War II that the Congress in its wisdom decided that all aid would be on a grant basis rather than a loan basis. I think we disbursed in the European nations $32 billion on a grant aid basis.

Does that fit the figure you have in mind?

Mr. HENNESSY. Roughly. Here again you are the greater expert than I will ever be.

Mr. PASSMAN. I would like for you and I to reach an agreement. You must be a good lawyer. You try the case by the answers and not by the questions. If we had used the IDA formula for those $32 billion which would have been a loan with a 10-year-grace period and pay 1 percent for 10 years and 3 percent for 30 years, we would have been in the second payback period and getting 3 percent a year, would we not?

Mr. HENNESSY. We would be in the third phase.

Mr. PASSMAN. Do you think the European nations with their great wealth and their very strong economies could pay back 3 percent a year on $32 billion had it been on that basis?

Mr. HENNESSY. I think they certainly could have.

Mr. PASSMAN. I appreciate that.

Now let us get to the point.

I happen to know that Korea, Vietnam, Laos and Cambodia are willing to accept the aid for the major programs on a loan basis. On your military and economic aid they are willing to accept it on a loan basis on a long-term payout. If the leaders of those countries are agreeable to that, don't you think we should be?

Mr. HENNESSY. I would certainly think so.

Mr. PASSMAN. Thank you.

[Discussion off the record.]

NUMBER OF BANK EMPLOYEES

Mr. PASSMAN. I mention this to you because you are in the Treasury Department. If we use Europe as an example and had made the aid on concessionary loans, rather than grants, we would have been

drawing on some of those loans. How many people does the Asian Bank have on board at the present time?

Mr. BEACH. Currently 600 in all; 200 professional staff.

Mr. PASSMAN. What percentage of these employees are U.S. citizens?

Mr. BEACH. 20 U.S. professional staff out of 200. Ten percent.

PROCUREMENT SHARES

Mr. PASSMAN. If we look at the total amount of disbursements for commodities by the Bank, 8 percent comes to the United States and 56 percent goes to Japan for a total of 64 percent.

Mr. BEACH. The figures I have are 8 percent to United States and 56 percent to Japan.

Mr. PASSMAN. That accounts for 64 percent. Where does the other go?

Mr. BEACH. United Kingdom, Germany, Netherlands, France, Italy, some Korea, some Taiwan, Canada.

TERMS OF LENDING

Mr. PASSMAN. What are the average terms of the Asian Development Bank?

Mr. BEACH. For hard money, the average rate has been running about 7.2 percent, with a 19-year term, which includes a 4-year grace period. For the soft loans, we have a 2½ percent average rate, and a 23-year term with a 6-year grace period.

MAINTENANCE OF VALUE

Mr. PASSMAN. I would assume this extra $8,571 thousand authorization request for callable capital is for the maintenance of value adjustment.

Mr. HENNESSY. The eight, yes.

Mr. PASSMAN. Let me ask you calmly as fellow Americans and taxpayers: Does that not frighten you? We look at these commitments we made to these nations and the tremendous amount of money that has been built up in reserves. It is a gift, come and get it, it is free. When they come to get it, they say this $100 million you gave us has lost 10 percent of its purchasing power since you gave it to us. You have to give us another $10 million so it will have the same value as when you made the gift. Isn't it about that simple?

Mr. HENNESSY. I think the maintenance of value provisions over a period of time have protected the United States.

As a matter of fact, maintenance of value obligations of other countries relating to paid-in capital of the lending institutions and to the IMF amount to $10 billion in all institutions.

Mr. PASSMAN. You always have an answer. The devaluation of the dollar is why you are asking for the maintenance of value payment, is it not?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. This goes across the board, does it not?

Mr. HENNESSY. To every country who is a member of these institutions.

Mr. PASSMAN. For the commitments we made and the commitments you are asking for now you have to increase it simply because the dollar will buy less. Isn't it that simple?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. What kind of mess are we getting this country into? Do you happen to know, since you are with the Treasury, the total amount of money requested for fiscal year 1974 for the maintenance of value payment?

Mr. HENNESSY. $2 billion, roughly.

Mr. PASSMAN. Let me ask you this: How many other nations have increased their contributions because of the loss of purchasing power of their currency?

Mr. HENNESSY. Sixty countries over time.

Mr. PASSMAN. I am not talking over time. I am talking this year. That is when we kicked this over.

Mr. HENNESSY. All those who devalued which was most of the world, except the European countries.

Mr. PASSMAN. I am talking about the contributors to this fund.

Mr. HENNESSY. We can get the figures. I don't have them at hand.

Mr. PASSMAN. It is part of the hearings. We are going to have to fatten the kitty by over $2 billion to make up for the loss of purchasing power on the dollars we committed, is that correct?

Mr. HENNESSY. Most of that is not in any budgetary form. That is pretty much balanced by an increase in our assets such as our gold and holdings.

Mr. PASSMAN. You have to increase it do you not, by the $2 billion?

Mr. HENNESSY. A great deal will never be disbursed. It is an increase in guarantee capital.

Mr. PASSMAN. If it is discharged. Your World Bank is disbursing the money, are they not?

Mr. HENNESSY. Yes.

Mr. PASSMAN. The International Development Association, the Asian Development Bank, the Inter-American Development Bank are all disbursing money all the time?

Mr. HENNESSY. Yes. But the International Monetary Fund——

Mr. PASSMAN. I didn't mention the International Monetary Fund. You people go on the defense and I don't blame you.

Mr. HENNESSY. We have to get the facts for the record.

Mr. PASSMAN. You give them $100 million but when they come to get it, they say that $100 million will not buy as much as it did when you gave it to us, so we want you to give us another $10 million. But we increase our public debt by the total and not just $100 million, isn't that right?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. We pay interest if it is borrowed on the total.

In your justifications you indicate that the proposed request for $108.6 million would have to be increased when the legislation on the maintenance of value has passed the Congress; is that true?

Mr. HENNESSY. Could you repeat that?

Mr. PASSMAN. In your justifications you indicate that the proposed request for $108 million for callable capital would have to be increased when legislation on the maintenance of value has passed the Congress?

Mr. HENNESSY. Yes from $108 to $120 million.

Mr. PASSMAN. But you said a while ago the $100 million request for callable capital becomes $108 million because of the loss of purchasing power at the time you made the commitment.

Mr. HENNESSY. It includes both the Smithsonian devaluation and the one of February 12 and that is correct.

It is not the purchasing power. It is when the par value of the dollar in terms of gold is actually changed by the Congress.

INCREASE OF ORDINARY CAPITAL

Mr. PASSMAN. You have to come back and ask for additional money. You increase the public debt not only with the original commitment but the maintenance of value addition. In your justification you indicate that the Board of Directors of the Bank increased the authorized capital stock and requesed all member countries to subscribe to their appropriate share. The justifications go on to say that the U.S. Government did not vote on this resolution. However, enough members had subscribed to bring the increase into effect without U.S. participation. Is that correct?

Mr. HENNESSY. That is correct. That concerns us greatly.

Mr. PASSMAN. Even though the United State did not vote for this increase in capital stock, is it bound by the decision of the other members? Not legally, of course. You know it is not legal.

Mr. HENNESSY. Not legally.

Mr. PASSMAN. But morally.

Mr. HENNESSY. If we want to leave our share at 8 percent which is at a level of influence which is undesirable.

Mr. PASSMAN. If it was 1 percent, you could still maintain your Director, could you not?

Mr. HENNESSY. I do not think it would be acceptable to others at that level. It would be almost ridiculous for the United States to do that.

Mr. PASSMAN. It looks to me like that is our decision. I hate to think that other nations are making those decisions but it is quite evident they are. On the balance sheet as of December 31, 1972, you indicate that the Bank has an ordinary reserve of $31 million. Could you please tell the committee what this reserve is?

ORDINARY RESERVES

Mr. BEACH. The reserve has come from net income accumulated through past operations.

Mr. PASSMAN. Why isn't the reserve plowed back into the capital accounts?

Mr. BEACH. It is plowed back through technical assistance grants and loans.

Mr. PASSMAN. Are you telling me it is plowed back into the capital account?

Mr. BEACH. Yes.

Mr. PASSMAN. Why is it set up separate if no disbursements are made out of it?

Mr. HENNESSY. That is the ordinary reserve out of the Bank out of which they make new technical loans and assistance grants.

Mr. PASSMAN. This is not obligated. This $31 million reserve is unencumbered?

Mr. HENNESSY. If you add up all the liabilities and assets you see that the Bank does have some unobligated funds.

Mr. PASSMAN. I am asking you about this particular fund.

Mr. HENNESSY. If you consider that unobligated funds come out of capital.

UNOBLIGATED FUNDS

Mr. PASSMAN. What are the unobligated funds as of the last statement?

Mr. BEACH. The last statement, we had on hand resources amounting to about $679 million and we had obligated or we had loans of $724 million. We had at the same time unused borrowing authority of $137 million.

TRAVEL EXPENSES

Mr. PASSMAN. Let me ask you this: The nations are pretty much clustered in the particular area where the Asian Development Bank operates.

Mr. BEACH. We go from Indonesia to Korea from Afghanistan to the Philippines. That is a considerable distance.

Mr. PASSMAN. With the exception of one or two, you would refer to them being clustered in that general area.

Mr. BEACH. In the geographical area, yes.

Mr. PASSMAN. Do the people, both business and governments, know pretty well the purpose of the Asian Development Bank? Are nations and businesses and bankers in the nations who are recipients of the Asian Development Bank familiar with its operation, where it is and the type of loans they make?

Mr. BEACH. I would say generally they are familiar with it.

Mr. PASSMAN. I would assume so. I would like to ask this question: On a comparative statement of income and expenses, you indicate that $140,424 was spent for travel for the Board of Directors and $1,177,460 was spent on travel for the staff in 1972.

Would you tell the committee why these staggering amounts were spent?

Mr. BEACH. Yes, I could, Mr. Chairman. Let me take the Board of Directors, first. That figure is broken down into three specific categories. One is called appointment travel. That is simply moving the individual from his home to Manila. The second is termination travel; if the individual leaves the Bank, that is. Third is any type of business travel that occurs there.

In 1972 we had a meeting in Vienna and Board members attended that. If I could then talk about the staff travel, we follow the policy of having all of our people domiciled in Manila. We do not have on location a regional office of the ADB in Korea or in Indonesia or something of this sort. Consequently there is a great deal of travel as a result.

REPRESENTATIONAL EXPENSES

Mr. PASSMAN. Have fun, I don't blame you. It is easy to get and you are way out there unsupervised, so have fun. You might as well

spend it just as some of the others. On the same statement you indicate $41,772 was spent in 1972 on representation expense only.

Mr. BEACH. Yes.

Mr. PASSMAN. You must have had some good representation.

Mr. BEACH. If I can make a comment or two on that. We spent of that $41,000, Mr. Chairman, $27,000 in Manila, and that is used——

Mr. PASSMAN. Representation allowance we are taking about.

Mr. BEACH. Yes.

Mr. PASSMAN. That is for booze, and I am sure they must buy good brands.

Mr. BEACH. I would think so.

Mr. PASSMAN. I would think so.

Mr. BEACH. That includes catering services and food.

Mr. PASSMAN. That is a lot of representation allowance for this type of operation. As I say, it comes easy and goes easy. All I can do is make the record.

Mr. BEACH. If I may make a point.

Mr. PASSMAN. Sure.

Mr. BEACH. We have certainly taken your concern to heart and we have been after the Bank repeatedly in terms of holding down the representation allowance. I think in terms of holding at a level, Mr. Chairman, even though we might not be happy with the level. We have been effective in that respect. The Bank has grown considerably over the past 5 years and we have kept the figure at that level.

Mr. PASSMAN. Yes, sir. You really had some high-fallutin things going on out there until we got on top of it.

You are familiar with that. You read the hearings of 5 years ago.

Mr. BEACH. I read the past hearings.

Mr. PASSMAN. I wonder if they straightened up. I cannot imagine they changed their ways.

Mr. BEACH. I don't believe there are any hidden funds.

Mr. PASSMAN. Are you familiar with the type of information they submitted to the committee several years ago with respect to expenditures.

Mr. BEACH. I cannot say I am.

Mr. PASSMAN. You had representation allowance for every category. It was frighteningly high. They said we will straighten it out. The percentage of your total earnings doesn't indicate it has been straightened up. I would say it is a pretty good indication that for the amount of volume you are doing, you are absorbing an awful lot of profits in representation allowance and travel and the expense of the Board. You know we have to borrow this money, and we do not know how we are going to pay it back. It would appear to me that there should be some way to disburse these approved loans without bringing these people in, fatten them up, and spend all that money on good booze. What is the representation allowance of the Export-Import Bank? They are worldwide. Let us give you an idea how extravagant this little operation is. I think it is a good outfit. The Export-Import Bank is a much larger operation than yours, is it not?

Mr. BEACH. We do a different type of business, sir.

Mr. PASSMAN. I know you do. They make people justify the need for funds, and you give it to everybody who comes in.

Mr. BEACH. I disagree with that.

Mr. PASSMAN. It follows, nevertheless, that the weaker the credit, the easier it is to get them to come in and ask for it. That is obvious. The Export-Import people operate a bigger business than you do in about four times as many nations. Do you know what their representation allowance is, $18,000 annually? You and I know this is excessive for the ADB. Come easy, go easy. Could you tell the committee how much the Bank spent for consultants in 1972?

CONSULTANT EXPENDITURES

Mr. BEACH. I think we have that figure here.
Mr. PASSMAN. I hope you do. That is part of the examination.
Mr. BEACH. $264,000 in 1972.
Mr. PASSMAN. You really had some consultants aboard, didn't you?
Mr. BEACH. We employ a great many American consultants.
Mr. PASSMAN. 264,000 consultants.
Mr. HENNESSY. $264,000 worth of consulting fees.
Mr. PASSMAN. I asked you how many consultants did you have?
Mr. BEACH. I will have to get those figures for you.
Mr. PASSMAN. What is the highest price consultant you have?
Mr. BEACH. That is another question I will have to do a little digging on.
[The information follows:]

The maximum daily remuneration for consultants of the Asia Development Bank is $125 per working day. The total number of consultants employed during calendar year 1972 was 54.

Mr. PASSMAN. Gentlemen, we will recess until 10 o'clock tomorrow morning. The committee is adjourned.

WEDNESDAY, MAY 23, 1973.

GENERAL FINANCIAL SITUATION

Mr. PASSMAN. The committee will come to order.
We shall continue our examination of the budget request for the Asian Development Bank.
Mr. Secretary, holding a responsible position with the Treasury, observing as I do the deplorable and frightening situation that we have gotten ourselves into with our fiscal policy, recognizing that there are $80 billion floating around the world in excess of other nations needs to meet their payments in industry, and knowing that we have become addicted to spending money we don't have for things we don't need, trying to be everything to everybody everywhere, do you have any knowledge that you could impart to a distressed, frightened Member of Congress on how this thing could be brought under control?
Mr. HENNESSY. We are not unaware of your concerns. I think we share many of the same concerns. We are in a very difficult period in U.S. economic history and I think you recognize it and have brought your attention to bear on it.
On the other hand, I do not believe that the United States can totally walk away from a certain level of international commitment. I think what we are talking——

Mr. PASMAN. Who has even suggested that?

Mr. HENNESSY. No one has suggested that.

Mr. PASSMAN. Don't imply it has been suggested. I do want to get an answer which would help me to reconcile some of these frightening facts.

Mr. HENNESSY. I would say beginning with the hearing some 2 years ago when more than ever you emphasized your concern on these points, we have been in the posture of trying to reduce the U.S. percentage share in these institutions. I understand that alone is not your concern. Your concern is also the absolute level of how much money we have put in.

Mr. PASSMAN. We have not reduced our share. Foreign aid is getting bigger every year. If you look at the requests for multilateral international organizations today compared with 5 years ago, it is 2½ times larger.

Mr. HENNESSY. As against 5 years ago, I think you are correct.

Mr. PASSMAN. What I want to know, what can we do to bring this thing under control other than just stop appropriating money?

You certainly agree with me that there are $80 billion floating around over the world, short-term credit now due. We don't have anything to redeem the $80 billion with, and that is why foreign nations and people are running from the dollar.

Am I using that correctly, $80 billion?

Mr. HENNESSY. Of reserves held by foreign governments.

Mr. PASSMAN. Wait a minute. Foreign governments and foreign nationals.

Mr. HENNESSY. Yes.

Mr. PASSMAN. Of this amount, and in your area, Japan alone as of February 28 holds $20 billion U.S. dollars.

Mr. HENNESSY. Yes.

Mr. PASSMAN. As we brought out yesterday, those people are so clever and recognize so completely that we have lost control of our fiscal affairs, that with all the tremendous surplus they have they turn around and buy our commodities, like airplanes, on their own terms so as to be able to repay it with cheap dollars.

As your associate said yesterday, in recent years the dollar has been devalued, as we compare it to Japanse yen, by 35 percent. Is that correct?

Mr. HENNESSY. That is correct.

BENEFITS TO UNITED STATES

Mr. PASSMAN. That is a frightening situation.

What real tangible results would benefit the United States by financing what is pretty much a Japanese outfit, the Asian Development Bank? Especially when we recognize that this money is going into nations where we already have a fantastically high aid program.

In Vietnam you have hundreds of millions of dollars annually going in under the bilateral programs. What can we accomplish?

What good for America are we going to get out of continuing to put money into the Asian Development Bank? Give me a brief answer.

Mr. HENNESSY. On the soft funds of $100 million, that will finance $100 million of U.S. exports.

Mr. PASSMAN. Eight percent of the total is going out.

Mr. HENNESSY. In that $100 million that we have before you——

Mr. PASSMAN. Following up that question. If any of this money is repaid, it goes to the Asian Development Bank and not to the U.S. Treasury; is that a statement of fact?

Mr. HENNESSY. That is a statement of fact.

Mr. PASSMAN. That is what worries me. It is a one-way street.

Mr. HENNESSY. We only get it back when the Bank is dissolved.

Mr. PASSMAN. No plans to dissolve it?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. It is a one-way street. The money goes out. If we compare that to our bilateral programs like the Export-Import Bank, the AID Development Loan Fund, that money is paid back to the United States, isn't it?

Mr. HENNESSY. The money flows back to the Export-Import Bank the same way it flows back to the Asian Development Bank.

Mr. PASSMAN. You know very well the Asian Development Bank is not an American program. The Export-Import Bank is an American bank?

Mr. HENNESSY. Yes, it is.

Mr. PASSMAN. Isn't that true with the Development Loan Fund?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. We cannot continue to take this bill out and vote for it, knowing the facts that you have verified this morning.

On the Development Loan Fund, that is a bilateral program and the payments are paid back to the United States?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. That is true with the Export-Import Bank?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. You also testified on the Inter-American Development Bank?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. You testified on the Asian Development Bank?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. You are going to testify for the International Development Association?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Yet you don't have anything whatsoever to do with administering these funds; you merely come up and justify the funds. In the International Development Association do the people that actually administer those funds ever come before this committee, do they?

Mr. HENNESSY. We have to approve each and every loan, Mr. Beach and myself.

Mr. PASSMAN. You didn't answer my question. I said those who administer the program. You are one of the assistant secretaries that cover the waterfront. When it gets down to actually administering these programs, they are administered by international organizations, aren't they?

Mr. HENNESSY. Those are the people that implement it; yes.

CONSULTANT SERVICES

Mr. PASSMAN. Could you tell the committee how much the Bank spent for consultants in 1972? How many consultants were on board for the full year?

Mr. BEACH. I have those figures. In 1972 the Bank spent $264,000 on consultants. There were 50 consultants employed by the Bank at one time or another, during 1972, and I have a breakdown by expertise and function which I will submit, if you would like.

Mr. PASSMAN. Could you tell us the number of consultants that you had onboard December 31, 1972?

Mr. BEACH. I don't have that specific information.

Mr. PASSMAN. Take the highest paid consultant. What is your top consultant? What is his pay daily?

Mr. BEACH. We have two arrangements. On the one hand the Bank brings in a consultant who provides some type of expertise or has some type of function; his salary will be generally comparable to what the Bank pays for an engineer.

Mr. PASSMAN. That does not answer my question. I asked you what you pay him. I am not interested in the ramifications. Let me ask you, if I may: What is the top consultant's pay?

Mr. BEACH. The top pay on a more or less regular basis is $100 a day plus their per diem.

Mr. PASSMAN. Plus per diem?

Mr. BEACH. Yes, sir.

Mr. PASSMAN. Every day or 5 days a week?

Mr. BEACH. That is every day he is on the job.

Mr. PASSMAN. If he is sent out to Manila, that means he would be paid 31 days? In a month he is paid 31 days; is that correct?

Mr. BEACH. Yes; I believe that is correct.

NUMBER OF EMPLOYEES

Mr. PASSMAN. Yesterday you told us how many you have aboard in Asian Development Bank. How many employees was that?

Mr. BEACH. We have 200, professional staff.

Mr. PASSMAN. I am talking about the total.

Mr. BEACH. 400 nonprofessional, giving a total of 600.

Mr. PASSMAN. The Export-Import Bank has 423; yours is how many?

Mr. BEACH. We have 600 professional and nonprofessional. Two hundred professional of that total figure.

Mr. PASSMAN. Pin this down. Of the 423 in the Export-Import Bank, would they be considered professionals?

Mr. BEACH. I don't have that information.

Mr. PASSMAN. The reason I ask that question, I am worried. It is not your fault, because these international organizations get way off somewhere and they are not watched closely.

Where the Export-Import Bank had $18,000 for representation allowance and makes the United States possibly several hundred million dollars a year, the Asian Development Bank does not make America anything and your representation allowance is some $42,000.

It shows the difference in the administration of some of these organizations.

I hope that you can do something to tigten this up if we are going to continue making contributions for it.

Mr. HENNESSY. I think that you can not compare completely the Export-Import Bank, Mr. Chairman, with the Asian Development Bank. As you know, in our multilateral program we have a lot more people who are employed because it is a different type program. We have to go out and, as you mentioned yesterday, on highway and river basin development projects it takes a longer time to implement.

You need a larger staff of engineers, more than the Export-Import Bank does.

Mr. PASSMAN. I wouldn't know why 10 people in the Asian Development Bank could drink more than the 10 people in the Export-Import Bank. I don't think your appetites for these luxuries dropped down because it is a different organization.

Mr. HENNESSY. I was referring to the overall professional——

U.S. PUBLIC DEBT

Mr. PASSMAN. I am referring to specifics. If their capacity is greater, then it is different. I am looking at the amount spent.

Do you worry about the ever increasing public debt?

Mr. HENNESSY. I do, indeed. I am glad to see it is a declining percentage of our gross national product.

Mr. PASSMAN. What does that have to do with GNP? If you have a public debt of $453 billion and your GNP should drop off 20 percent, you still have that public debt; don't you?

Mr. HENNESSY. You still have a public debt.

Mr. PASSMAN. You don't reduce the public debt we are building up through our extravagance because we have a strong GNP. Is that a statement of fact?

Mr. HENNESSY. The GNP does vary.

Mr. PASSMAN. What you are doing is using GNP. It varies. From time immemorial we have had peaks and valleys, depressions and recessions and upsets in our economy. When that comes along, you still have that terribly high public debt we built up, and we have to service that; don't we?

Mr. HENNESSY. Yes, we do have to service it.

Mr. PASSMAN. Am I making a statement of fact when I say that the past 25 years was the most prosperous period in the history of America, the greatest intake of the U.S. Treasury?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. You realize in the past 25 years we built the public debt from $159 billion to $455 billion?

Mr. HENNESSY. That is only 40 percent of our gross national product.

Mr. PASSMAN. It does not make any difference. Stick with the public debt. You people don't have the right to draw off a person's profits any greater than the tax laws call for. We have nevertheless spent all that. Our revenues have been the highest, have they not?

Mr. HENNESSY. They have indeed.

Mr. PASSMAN. We spent all the revenue and increased the public debt, which is borrowed money, from $159 billion to $463 billion. You couldn't be proud of that record any more than I am proud of it.

Mr. HENNESSY. I am not proud. There is a measure of ability to carry debt. As your income and my income goes up, our ability to carry debt increases. If we have a $1.263 trillion economy, our ability goes up as the economy goes up.

Mr. PASSMAN. When the economy goes down or if you get a recession, you don't reduce that public debt because you had a recession and a loss of income to the Treasury?

Mr. HENNESSY. No.

Mr. PASSMAN. You still have to service it?

Mr. HENNESSY. Yes.

Mr. PASSMAN. You and I know there is no justification for this country in this day of great prosperity to continue spending tens of billions of dollars annually more than we collect. You and I know it creates inflation and reduces the purchasing power of the dollar.

By contrast, I came here 27 years ago. The dollars that I saved the hard way, by the sweat of the brow, building up for a rainy day, our extravagance has reduced the purchasing power of those dollars by 63 percent. These dollars that I saved by working hard in my businesses are only worth 37 cents on the dollar. I believe inflation now is climbing back up.

Mr. LONG. Think how many more dollars you have.

Mr. PASSMAN. How can we put some sense into this crazy thing? We have become addicted to giving away money. You and I know the trend is to get away from bilateral programs where we can hold your feet to the fire for strict accounting and move over to multilateral programs where we have no right of detailed examination until after the fact, even if then.

What are the terms of the loans provided from the callable capital?

TERMS OF LOANS

Mr. BEACH. From the hard-loan window, Mr. Chairman, the terms have been about a 7.2 percent interest rate and a term period of 19 years, which includes a 4-year grace period.

With respect to special funds, soft loans, we have an interest rate average of 2½ percent and a term of 25 years, which includes a 6-year grace period.

Mr. PASSMAN. Give us the average.

Mr. BEACH. Those are the averages.

Mr. PASSMAN. You have some at 2½ percent?

Mr. BEACH. Yes, sir.

Mr. PASSMAN. What percentage of those loans are 2½ percent?

Mr. BEACH. Of all of the loans we have in the special funds, I would assume the average is 2½ percent.

Mr. PASSMAN. I believe we pay 6 percent to borrow that money. Is that correct? That is almost as ridiculous as the case we made yesterday where we borrowed $40 million at 6 percent, put it in the Asian Development Bank and borrowed the money back from the Asian Development Bank at 6 percent, which means we were paying 12 percent on our own money. That is ridiculous.

I believe the prevailing interest rate in that part of the world is in the neighborhood of 12 percent.

Mr. BEACH. Certainly higher than 2½ percent.

Mr. PASSMAN. I am trying to make an accurate record. Isn't it true that many of the nations are just begging for money at 12 percent? You said yes?

Mr. HENNESSEY. The interest rate in those countries is often in the neighborhood of 12 percent.

Mr. PASSMAN. Their entire economy has been built around this kind of interest rate. This is something that they have lived with and they have adjusted their economy built around this high interest rate, have they not?

Mr. BEACH. It has been one of the problems—the scarcity of capital.

Mr. PASSMAN. Take the United States. In 1960 the banks were only paying 2½ percent interest on money. Today it is up to 7 percent.

Mr. BEACH. Yes, sir.

Mr. PASSMAN. Why should the Asian Development Bank move in the area and provide capital at 2½ percent for these nations? We have to borrow that money at 6 percent to make it available to those people at 2½ percent, where they have been accustomed to getting money at around 12 percent.

How about your repayment? We referred to soft loans and we referred to hard loans. I would assume that you have the same arrangements in both categories?

Mr. BEACH. In terms of repayment. On the hard loans we have an interest rate of 7.2 percent on the average. On soft loans, 2½ percent.

Mr. PASSMAN. What is the percentage, hard loans and soft loans?

Mr. BEACH. Seventy-five percent.

Mr. PASSMAN. Which way?

Mr. BEACH. Hard at market rates.

ADB LOANS TO SOUTH VIETNAM

Mr. PASSMAN. I believe we have a U.S. bilateral program in South Vietnam presently under supporting assistance and military assistance running about $2 billion or more a year?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. How much are these people getting out of the Asian Development Bank?

Mr. HESSESSY. There is a total for Indochina, which includes one loan to Laos, of $11 million. There are soft funds.

Mr. PASSMAN. Here is $2 billion we are pouring in.

Do you think $11 million is going to make any significant difference when you compare that to the $2 billion of bilateral aid?

Mr. HENNESSY. No; but I am glad to see that it came entirely from other nations. Burden-sharing is one of the benefits of mulitlateralism.

Mr. PASSERMAN. How much of it would be U.S. dollars?

Mr. HENNESSY. In that we have never contributed 1 red cent to the soft loans; all the loans to Vietnam have been from that pool of non-U.S. funds. None comes from the United States.

In the future if we contribute to soft funds, a proportionate share would be the United States—in other words, if we contribute 20

percent of the total soft funds and they make a loan of $10 million, you can figure 20 percent of that could come from the United States.

Mr. PASSMAN. You are talking about less than $1 million, aren't you?

Mr. HENNESSY. For the purposes of this particular examples, yes.

FOREIGN HOLDINGS OF DOLLARS

Mr. PASSMAN. What you are doing is getting so many programs started you confuse yourself. I cannot go to sleep worrying about the mess we are in.

I read again last night about the dollar. It is just on the verge of taking another drop. You read the same article I did. Yet we are contributing to it. Unless we can bring this situation under control we are going to be completely isolated. We are going to be one Nation standing alone. You are going to drive these people into the arms of nations that know something about managing their fiscal affairs.

This extremenly wealthy country of Japan, with 20 billion U.S. dollars on hand, purchased airplanes from the United States on credit.

The Japanese Government owns the Japanese Air Lines but they know how gullible we are. These people didn't take any of the $20 billion to buy these airplanes. They bought them on terms. As you said yesterday, there has been a loss of value of 35 percent of the U.S. dollar compared to the yen during that period. Is that right?

Mr. BEACH. That is correct.

Mr. PASSMAN. What these people said, "We will buy these planes on credit and then when we succeed in devaluing the dollar; we will pay the indebtedness off with cheap dollars.

How stupid can we be?

Mr. HENNESSY. May I clarify a point on the sale of the airplanes. When the Export-Import Bank finances as it has a great portion of our sales of airplanes to Japan under long-term credit, the Bank of Japan turns around and buys an equal amount of Export-Import Bank paper. There is an offset.

Mr. PASSMAN. There is only an offset to a percentage of it?

Mr. HENNESSY. It is 100 percent offset.

Mr. PASSMAN. It does not make any difference, they still repay those loans with depreciated dollars.

The one answer that I wish you could give me: What disposition do you think Japan is going to make of the 20 billion U.S. surplus dollars they have?

Mr. HENNESSY. We have been meeting with them bilaterally and they are buying many more U.S. goods. In April, for instance, they cut down by one-half the deficit we had a year ago. They have lowered a lot of the restrictions but have not gone far enough. They still have too many dollars. The trend is better but we are not yet satisfied.

Mr. PASSMAN. Eighty billion dollars floating around the world and we don't have a thing to pay them off with?

Mr. HENNESSY. We have a lot of goods and services but unfortunately they prefer the dollars to buy others.

Mr. PASSMAN. Don't you think it is time to get our house in order and try to maintain a surplus in our trade account and a surplus in our balance-of-payments account?

Mr. HENNESSY. We have to reach that point in the next couple of years.

U.S. BUDGETARY OBJECTIVES

Mr. PASSMAN. I had a friend who was almost an alcoholic. He was a bourbon drinker. I went home and I said, "You know, Abe stopped drinking whiskey."

I said, "That is a great thing. He is a brilliant fellow and can make something out of himself."

The heck of it is, he switched over to vodka!

That is the same difference.

That is what we do. We always say, "Yes, we are going to stop this, but we don't stop it. It gets worse every year. I don't seem to be making much headway convincing people of the facts of life, because there are too many polite and influential young people downtown who seem to have more influence in the Congress than I do but I am going to do my very best.

Do you know whether or not the Treasury has any long-term plans to try to get back to a balanced budget? Until a few years ago we were always thinking about a balanced budget. I remember President Eisenhower throwing that dollar up to the ceiling and catching it, saying that it was a hard dollar, balanced budget, and we will return integrity to the dollar.

Mr. HENNESSY. I certainly do.

Mr. PASSMAN. It seems they disappeared.

Do you have any new plans to bring integrity back to the dollar?

Mr. HENNESSY. I believe the President in his budget message has foreseen that the budget deficit would drop to somewhere around $5 billion in fiscal year 1975 and the year after that would be in balance. That is the target in the schedule he is on.

Mr. PASSMAN. Isn't that based upon his full-employment formula?

Mr. HENNESSY. He assumes we will be at full employment.

Mr. PASSMAN. I am a great admirer of the President but I think that is as phony as a $3 bill, to come along and say if we have full employment this would be the amount of money that would be coming into the Treasury.

So we are now going to appropriate on the basis that we have full employment. We are going to move on the basis that all U.S. people are employed, yet they are not employed. That is like me saying, "If they raise my salary to $50,000 a year, then I could put $4,000 into the bank." Even though they are not going to raise it, I pretend that I am getting it.

Mr. HENNESSY. Basically, it is not inflationary, because it stimulates employment as the economy grows. The deficit spending——

Mr. PASSMAN. We are basing our expenditures on the fact that we had full employment. We say this is the amount of money we would take in: therefore, we feel safer in spending on that basis?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Isn't that something.

Much as I like this President, whoever gave him that formula sure must have had a problem.

Mr. HENNESSY. In the longer term outlook which the President refers to in the budget documents which went forward this year, and even without adjusting for full employment, by calendar year 1976,

there would be a balanced budget. That is what his program and goal is.

Mr. PASSMAN. I think that is just about the same basis as our deficit. You have two types of deficit, Mr. Secretary. One would be the administrative deficit, and the other would be the unified budget deficit. The facts are the true deficit is the administrative deficit, is it not?

Mr. HENNESSY. There is a lot of dispute on which is the true figure, administrative, cash, or national income account.

Mr. PASSMAN. Another one of those deceptions that we practice. It didn't start under this administration, but we have trust accounts. The main trust accounts are the railroad retirement, social security unemployment, and Federal retirement. That money belongs to the American people, and in no sense does it belong to the Treasury. Is that correct?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. What we actually do, if we have an administrative deficit of $38 billion, then we collect $10 billion more in trust accounts than we pay out. We transfer that $10 billion over and reduce the administrative deficit by $10 billion and show that the deficit is $28 billion rather than $38 billion.

Mr. HENNESSY. Under that particular formulation; yes, sir.

Mr. PASSMAN. We slip in the back door and issue bonds for the amount of that $10 billion, don't we?

Mr. HENNESSY. Yes, sir. I believe that is correct.

INCOME TAX EXEMPTIONS

Mr. PASSMAN. What we do, we are hoodwinking the people like we do on other things. It takes one of these hifalutin, sweet-smelling names, and people come along and vote for it. I don't think it's right. The American employees of the Asian Development Bank, do they pay U.S. income tax?

Mr. BEACH. They pay U.S. income taxes on any amount of salary above $20,000 a year, assuming that they have been out of the country 17 out of 18 consecutive months.

Mr. PASSMAN. They usually are out of the country 17 months. Don't confuse us. Put that on the record. You are a good American taxpayer. In effect, the first $20,000 when they are employed aboard is tax free?

Mr. BEACH. If they are out of the country.

Mr. HENNESSY. The same as any American.

Mr. PASSMAN. What is the average pay?

Mr. LONG. Who would ever want to come home when he could get that kind of tax break by working overseas?

Mr. PASSMAN. How many American employees do you have?

Mr. BEACH. We have 20 American employees at the Bank.

Mr. PASSMAN. Out of the country?

Mr. BEACH. Out of the country?

Mr. PASSMAN. What is the average salary?

Mr. BEACH. I think the range would be between $17,000 and $20,000.

Mr. PASSMAN. I understand downtown all other international organizations operate that way. I don't blame these employees if they get that salary tax free because that is the way it is. That is the way it is. Even the secretaries in these international organizations downtown,

like the Inter-American Development Bank, I believe they get theirs tax free?

Mr. HENNESSY. They do. There is a distinction made between them and this Bank, because it is located outside the United States. ADB's American employees don't pay income tax, just as an American working abroad for the First National City Bank does not pay taxes. The people who work in the Inter-American and World Bank actually have to pay taxes, and it is reimbursed.

Mr. PASSMAN. The same difference?

Mr. HENNESSY. Yes. What I am saying is there——

Mr. PASSMAN. Reimbursed out of the American taxpayers. If they put that money in the bank, it is reimbursed. What is the difference? If I get a salary of $52,500 and they take out the income tax, then the following day they give me a check reimbursing me for it, it certainly is tax free. All we want to do is make a record. You didn't write the legislation.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. I think the record should show how sweet this kitty is and why so many people like it and defend it, not just this outfit but all these multilateral organizations. They get out from control of the Congress. It is a sweet proposition.

Mr. BEACH. Could I comment?

Mr. PASSMAN. Sure.

Mr. BEACH. I have had a look at the salary structure of the Bank, and 72 percent of all of the professional employees, which includes the Americans, are in a salary range that runs from a GS–11 to 14 in terms of something that might be comparable here. If you talk to several of these people, they certainly acknowledge the fact that if they meet the provisions they will benefit from the tax exemption provision. However, I think what is controlling in terms of whether they go to Manila or attempt to find employment here is the general level of comparability, because no one can really rely on the fact he is going to meet the provision of being out of the country 17 out of 18 consecutive months.

Mr. PASSMAN. That might be a very weak argument. I don't blame you for making it. You still don't alter the fact they don't pay any income tax.

Mr. LONG. Could we get in the record how many of these people in the past has escaped taxes by staying there 18 months?

Mr. BEACH. I can attempt that.

Mr. LONG. What the usual stay overseas has been?

Mr. BEACH. I can contact these individuals on my return to see what information I can get for you. I will provide that information directly to you when it is available.

Mr. LONG. It would be interesting.

Mr. SHRIVER. In this connection, if you would yield, living expenses are not as great in the Philippines as they are in this country, are they? Most of them have a servant or two.

Mr. BEACH. On this point, beginning with living expenses per se, housing is about the same. It costs as much to rent a house there as it does to rent a house in Washington. Food is cheaper, clothing is cheaper, servants are extremely inexpensive, there is no question about that point.

Mr. SHRIVER. Would most of these employees in the range you mentioned a while ago have a servant?

Mr. BEACH. I think they would have a servant. I think on the other side is the fact that even though conditions are less in Manila, Manila is not a garden spot by any means. There is a psychic loss of income.

Mr. PASSMAN. You might apply it to the Asian Development Bank but not these other international organizations domiciled downtown. If you have two sisters, one working for the State Department and one working for International Development Association, maybe within a block of each other, one gets her salary tax-free and the other pays income tax—is that it?

Mr. LONG. If the chairman would yield—I want to make sure that we get an adequate response on this business of escaping U.S. income taxes. This is just one more loophole, and the public is getting increasingly resentful about these loopholes. I would like to just have a breakdown of all the U.S. citizens that have worked for the Asian Development Bank, either abroad or here, who have paid taxes; those who have not paid taxes; what their exemptions have been; and what the tax break is relative to the situation in which they would find themselves if they were working in some alternative employment.

Mr. HENNESSY. There is a point here in this particular Bank. The problem has been the reverse. We cannot get enough Americans to go out there. We would rather have many more Americans living out there and influencing operations and working out there. It is a difficult place to get people to go to. I think the proof of the pudding is in the eating. It may look on the surface like it is very attractive, but it is hard to get people to go out there and to keep them out there. I will provide that information directly to you when it is available.

Mr. LONG. I would like to pursue that. That is a matter that should be settled by compensation?

Mr. HENNESSY. Yes, sir.

Mr. LONG. This is back-door compensation?

Mr. HENNESSY. It applies to all Americans abroad, not just this Bank.

Mr. LONG. Exactly. This back-door compensation is something that we must try to get away from.

Mr. HENNESSY. I think the theory of the tax exemption is that someone living out of the United States is being penalized. An American living in Manila may not be as happy. He would rather be home with his family and in his own culture.

EMPLOYMENT OF AMERICAN NATIONALS

Mr. PASSMAN. You get away from it. Most of them are employed here in Washington, D.C.; they get the same exemption even if living within two blocks of where I live. How many unfilled positions do you have now for Americans?

Mr. BEACH. We have currently in the coming budget——

Mr. PASSMAN. I say specifically now, what jobs do you have open in the Asian Development Bank in Manila you are looking for personnel today?

Mr. BEACH. We have 15 jobs open for which we are looking for personnel. We have scheduled in the early part of the summer a recruit-

ment trip to the States to increase the number of Americans in the Bank.

Mr. PASSMAN. I take whatever you say at face value. I might say that you get mixed up on your figures and what is accomplished, but I never question the integrity of any witnesses. If you have any trouble getting personnel, I would like to submit a list of a hundred people from my district, some of them outstanding lawyers and professors with doctor's degrees, begging to go abroad.

I know a young lady now who has her master's degree and she was a private secretary to Governor Edwards. She wants to go abroad on one of these jobs so——

Mr. BEACH. I would welcome the list.

Mr. PASSMAN. I gave them to Dr. Hannah. He is one of the great administrators, and he said we don't have any openings. It is strange Dr. Hannah has no openings and has to bring some home, while you people want to go abroad. If you could give me a list of the type of people that you are looking for.

Mr. BEACH. Happy to.

Mr. PASSMAN. I wish Mr. Roybal were here. I think he could give you a rather long list of qualified people too.

Mr. BEACH. Good.

Mr. PASSMAN. I imagine these jobs would be filled. Open the door and let them in. You cannot tell me these people don't want these jobs. You got your mail mixed up. I can give you a list, as all the members of this committee can, of outstanding constituents in many different categories that are looking for jobs. I know a man who is 38 years old, has a doctor's degree, a very outstanding engineer, and he is available. I think that I will send you the name this afternoon.

Mr. BEACH. If I might make a point, Mr. Chairman. I know this committee is very much concerned about staffing at the Bank. We are, too. One thing we would like to do is offer the Bank an increased number of applicants——

Mr. PASSMAN. I would be just as well off not to get any constituents in this Bank. If I have my way, we are not going to have anything to do with it in a little while.

It will fall of its own weight in due time. I am making a lot of fuss, but the statistics and the facts of life will support it. Give it a little time. The American people, first thing you know, will start moving in and using that direct way they have of cutting these things down. We have serious problems, very serious problems, all over the United States and many of them because we didn't have the funds to do these public works projects. We had to yield in favor of foreign aid. They don't lose any money, not a dime. Many of my projects actually had to be postponed. The money had to be impounded. I think the polite way of saying it is budgetary reserve. You know what I am talking about.

Mr. LONG. If you would yield.

INCOME TAX EXEMPTIONS

I am a little confused on this tax situation. I got the impression you said a while ago you got the tax break only if you were there 17 months and——

Mr. BEACH. Eighteen months.

Mr. LONG. You got the first $20,000 tax free. Yet the chairman got through saying a person working in Washington gets this tax break if he works for the Asian Development Bank.

Mr. HENNESSY. Other banks.

Mr. LONG. What is the situation?

Mr. BEACH. Let me make a few general comments and perhaps my remarks can be supplemented. I think first a conditioning factor is the type of headquarters agreement worked out between the international institution and the country in which it is located, in this case the IDB and IBRD would have some type of arrangement with the U.S. Government. In the case of the Asian Development Bank, we worked out an agreement between the Asian Development Bank and the Philippines, in which foreign nationals employed at the bank in Manila are exempt from Philippine taxes including income taxes. Then what applies to American citizens working is the general provisions that apply to all Americans earning income outside the United States, those in the bank being in that category.

Mr. HENNESSY. There are no Asian Development Bank people working here in Washington. As the chairman says, there is a large——

Mr. PASSMAN. You have hundreds of these employees in Washington working for these other multilateral organizations and they pay no income tax. Put it where it is.

Mr. LONG. American nationals and foreign nationals?

Mr. PASSMAN. Yes.

Mr. LONG. Why should anybody get out of paying income tax?

Mr. SHRIVER. It is in the law.

Mr. PASSMAN. Let me make the record for what it is.

Mr. LONG. Why don't we get a recommendation for changing the law? This is absolutely preposterous.

Mr. SHRIVER. Put a bill in.

Mr. PASSMAN. I don't blame you people. I want to keep the record straight. This is par for the course whether you are domiciled in Washington, Manila, or elsewhere; if you work for a multilateral organization you pay no income tax. Let us pin it down so we know what it is all about. I don't blame you people if you are in Manila. I salute you; you are doing it legally. Some of these foreign nationals work for governments where they only pay 2 or 3 percent income tax.

They meet and they reach an agreement that this is applicable to all personnel. This man here that may be paid 65 percent, he gets his free. This man from some other nation where the country only collects 2 percent, he gets his free. I don't blame you for working that thing out.

Mr. LONG. The chairman has a good point. I always learn by listening to him.

How much of this exemption from income tax is by reason of the law and how much of it is by reason of Treasury regulations?

Mr. HENNESSY. In the case of the IBRD and IDB, the Articles of Agreement, which are part of American law, provide for tax exemptions for salaries of employees aside from those of local nationals. Consequently, the United States does not tax salaries paid by either Bank to foreign nationals. In order to put American employees on the same basis with their foreign national colleagues, the Banks have also agreed, as a matter of policy, to reimburse American employees for their taxes.

Mr. LONG. These are regulations worked out by the Treasury, by agreement?

Mr. HENNESSY. Worked out between these institutions and our Government. In other words, if the World Bank moves their headquarters tomorrow to Geneva——

Mr. LONG. The point I am trying to get at is whether Congress is responsible for some of this. A lot of it is just administrative law, is it?

Mr. HENNESSY. The chairman is right. That it was part of the regulations and rules under which the banks were set up.

Mr. PASSMAN. Subject to revision within the Department without legislation, if he wants to make it. Is that correct?

Mr. LONG. I would like——

Mr. PASSMAN. I didn't get an answer. This is an important question.

Mr. HENNESSY. Would you repeat the question?

Mr. PASSMAN. Subject to revision within the organization itself, without legislation, if they want to make the proposal?

Mr. HENNESSY. We told them they were no longer getting it, for just Americans or anyone in an institution——

Mr. PASSMAN. The Department can make the decision? You don't need legislation if you should decide it should be done; is that right?

Mr. HENNESSY. I am not certain. I believe you are right.

Mr. LONG. We are entitled to an answer on that. I am very much concerned with the extent to which income taxes are determined by bureaucracy, by legislation.

The extent to which the Treasury should be allowed to make up law on income taxes should be definitely limited and delineated. I would like to bring out to what extent these people working for multilateral institutions are getting out of income taxes because of Treasury regulations and Treasury law that is being written—above and beyond what Congress has done.

Mr. PASSMAN. Let me offer a little defense of the policy.

If all the nations are doing this, notwithstanding the fact some of them may be paying 2 or 3 percent income tax and in America 60 percent income tax in the high brackets; if it is the policy, I say it is a pretty poor policy and ought to be corrected.

Until it is corrected, and I certainly have to recognize that you are not violating any law, but you ought to look at it. If too much of this gets out, people are going to be unhappy.

MI. LONG. Would you yield?

I don't agree we should let what other countries do determine our own income tax regulations. If we wait until all the countries in the world come to agreement on this, we will wait a long time. We have among the highest income tax rates in the world and I feel that if American citizens are going to have to pay them, and if people working in the United States are going to have to pay them, then everybody should pay them.

I am talking about our own people working for multilateral institutions, and I am talking about foreigners working for multilateral institutions. They should all pay U.S. income taxes and they should pay them at the same rate as anybody else. I don't give a doggone personally what other countries do. I feel this should be the American law and we are not——

Mr. HENNESSY. It is a matter of law as far as foreigners working here in the United States are concerned.

Mr. PASSMAN. I believe the regulation would have to be amended.

Mr. HENNESSY. It would have to be.

Mr. PASSMAN. The nations themselves should say, "All right, you are from the Philippines and you are working in the United States and you are going to have to pay the income tax in the Philippines." Let the Americans pay theirs. I don't see why they should be exempt from income tax simply because they are working for an international organization.

Mr. LONG. Nobody able to pay income taxes should be exempted from income taxes. Nobody.

Mr. HENNESSY. Legally you have to run back to the original law and change the law.

Mr. PASSMAN. Only on the ABD. That would not be necessary for the World Bank and the International Development Association?

Mr. LONG. While it is perfectly true that Congress determines these laws, it is also true that we do it to a very large degree as a result of Treasury recommendations, is it not?

Mr. HENNESSY. That is correct. I think the practical results, if you took away this exemption, if Americans had to pay taxes while working for international institutions and their foreign colleagues, Britishers, for example, didn't, you would fill up the institution with Britishers. We couldn't compete in the sense of providing staff members.

There is another aspect. If you applied U.S. tax law to the Britisher and the Frenchman as well as the U.S. citizen working here in the United States, then the institution would move their headquarters to Geneva or Britain. They inject upward of $100 million from the World Bank and about $50 million from the IDB here into the Washington economy.

I agree with the chairman, this is a difficult problem.

Mr. PASSMAN. Let's have a look at this. Drop the curtain on the subject.

I think you ought to have a look at this. It just does not look right.

Mr. LONG. I would like more than a look. I would like the Treasury to come in with recommendations to put an end to it unilaterally.

Mr. CONTE. If you would yield.

We will have a tax reform bill coming to the floor of the House in the near future. That would be the place for your amendment.

Mr. LONG. The gentleman surely must have his tongue in his cheek.

Mr. CONTE. The man is such a powerful——

Mr. LONG. Don't you know all tax legislation comes down to the floor under a closed rule having no amendments.

Mr. CONTE. You are telling me you are incompetent to get an amendment across? I cannot believe that, Doctor—not you.

Mr. PASSMAN. Gentlemen, you are dealing with an international agreement.

Mr. LONG. The gentleman takes my breath away.

Mr. PASSMAN. May I ask you——

Mr. LONG. Only the gentleman from Massachusetts could make a suggestion like that.

Mr. CONTE. You and I know that we have been successful on many amendments on the floor.

Mr. LONG. Only where you have an open rule, not a closed rule where you cannot offer an amendment.

STAFF LOANS

Mr. PASSMAN. Mr. Secretary, under the policy of the Asian Development Bank are the employees of the Bank eligible for loans from the Bank?

Mr. HENNESSY. They have a staff loan program which Mr. Beach can describe in detail.

Mr. PASSMAN. The answer is "Yes?"

Mr. HENNESSY. The answer is: "Yes, they do."

Mr. PASSMAN. Let me ask you this. Do you have any limitation on what an employee can borrow?

Mr. BEACH. Yes, we do.

Mr. PASSMAN. What is the limitation?

Mr. BEACH. A new employee may have an advance against his salary equivalent to 3 months of his salary. He repays that over 18 months at 5 percent interest.

Mr. PASSMAN. What happens if this man comes in, as you stated earlier, they may return to the States, so here is Joe Doaks and he comes in and he borrows $4,000. He is out there 60 days and decides that he does not like the climate and the job and he is going home? Then what disposition do you make of the outstanding loan?

Mr. BEACH. The man is liable for the repayment of the outstanding sum, as he would be in any case.

Mr. PASMAN. If he had no money, wouldn't he borrow the money to start with?

Mr. BEACH. He still owes the money.

Mr. HENNESSY. In 7 years, those bad debts——

Mr. PASSMAN. It means these people don't come home then?

Mr. HENNESSY. Those that come home——

Mr. PASSMAN. This money has to be paid over 18 months. You had no deficits, which means there have been no people come home.

Mr. HENNESSY. In 18 months.

Mr. PASSMAN. That is right. So he gets his income tax——

Mr. HENNESSY. There may be some that come back and repay the loan in the States.

Mr. PASSMAN. You are on thin ice and you are going to fall through. Rest your case while you are ahead. You will get behind. You and I know the score. We discussed this yesterday, where the arrogant President of the Bank would not let our Board member know what loans he was making, and said that is secret only for the President.

Mr. YATES. Is that true?

Mr. PASSMAN. That is true. That is one of the virtues of the organization. You ought to go in some of these other things. My friend says he is not going to let that happen in the future.

Mr. CONTE. That was straightened out a long time ago.

Mr. PASSMAN. I don't know.

The fact it was practiced, the mistake is made when it is done the first time, and that applies to almost any subject you discuss.

Mr. LONG. Would you yield?

We are lending money to our own employees at 5 percent, which is below what the U.S. Government has to pay when it borrows money; is that right?

Mr. BEACH. That is correct. Under certain circumstances.

Mr. LONG. Would you regard this as a hard or soft loan?

Mr. BEACH. I would say that is a blended loan.

Mr. LONG. That is a pretty good answer.

Mr. HENNESSY. It is a mushy one, neither hard nor soft.

Mr. LONG. Soft blend, in other words.

Do we have the names of those individuals?

Mr. BEACH. Yes, sir.

Mr. LONG. What about foreigners; are they allowed to borrow money?

Mr. BEACH. Yes, sir. All employees of the Bank.

Mr. LONG. Employees of the Bank from all over the world are allowed to borrow up to 3 months' salary?

Mr. BEACH. Yes, sir.

Mr. LONG. Also at 5 percent?

Mr. BEACH. At 5 percent.

Mr. LONG. Subject to the same regulations?

Mr. BEACH. Very same.

Mr. LONG. Could we get the names?

Mr. BEACH. We can provide it on a confidential basis.

Mr. PASSMAN. Why confidential?

Mr. BEACH. There may be some embarrassment to the individuals involved. We would ask for it on a confidential basis.

Mr. LONG. I don't know——

Mr. PASSMAN. The American public is not entitled to know? I just asked the question. Why would it be classified?

Mr. HENNESSY. If you asked the First National City Bank to publish a list of borrowers, they would get upset.

Mr. LONG. It is the U.S. Government's money. We are a Government institution.

Mr. PASSMAN. How many employees presently owe the Bank?

Mr. BEACH. We currently have 215 employees that have used this.

Mr. LONG. All countries?

Mr. BEACH. All countries.

Mr. PASSMAN. Make this record clear. We want to be fair. This is one-third of the total personnel?

Mr. BEACH. That is right.

Mr. PASSMAN. One-third of the total personnel of the Bank are eligible to borrow money and pay 5 percent?

Mr. LONG. Of all eligible, one-third have done it?

Mr. PASSMAN. All are eligible, but one-third have availed themselves of the opportunity?

Mr. BEACH. That is right.

Mr. PASSMAN. If you are recruiting the type of personnel that I think you would need, you are talking about outstanding consultants, lawyers, you are talking about people with backgrounds who understand finances. What kind of people are you hiring that they are so poor they cannot get there to take the job unless they can borrow money to get out there?

Mr. BEACH. May I make some comments?

Mr. PASSMAN. They must not be too successful in their own community or they wouldn't ever have to borrow money to move out there.

Mr. BEACH. I would like to comment.

Mr. PASSMAN. I wish you would.

Mr. BEACH. Of the 215 who have borrowed funds from the Bank, 172 have been nonprofessionals, which means primarily Filipino citizens. I have said that the Bank can lend for adjustment assistance, in effect, when a person comes on board. It can also lend on compassionate grounds. For example, the Philippines underwent tremendous flood damage in the past year and many of these loans have stemmed, have as their reason, hardship that the local staff was undergoing. Manila was practically underwater.

Mr. PASSMAN. Going to the policy. You started off with the policy and they were making loans from the very month they opened the Bank. You may have other conditions, but it is the policy to make loans at 5 percent?

Mr. BEACH. Yes, sir.

Mr. PASSMAN. It is a subsidized interest rate?

Mr. BEACH. I have to admit it is.

Mr. PASSMAN. How much is outstanding at this time?

Mr. BEACH. We have $90,000 approximately outstanding—$97,000. The average loan is about $455 per person.

I would like to get back to this point about the type of people that we bring in and why they have to borrow money. In the Philippines very frequently when you rent a house, the landlord will demand 1 year's deposit in advance. There are an awful lot of people that come in who simply are not able out of their ready cash to come up with that amount. That is a considerable sum of money.

Mr. HENNESSY. We can provide for the record additional information. We have given some in the past and we can update that.

[The information follows:]

The total salary advances to cover arrival expenses outstanding as of June 18, 1973 amounted to $100,909.92. Special salary advances on compassionate grounds amounted to $13,788.74. The total for both categories was $114,698.66.

Mr. PASSMAN. Let me pursue this a moment. I am a little worried about the policy because this certainly is an exception. Our Government may have certain employee organizations that they create themselves, but we don't have any department in our Government where they make loans to employees like State and Treasury.

Do you have a policy where you bring new personnel in and make them loans?

Mr. HENNESSY. We have a separate credit union. We have nothing comparable to what you are saying.

Mr. LONG. The employees are lending themselves money. Why don't multilateral institutions adopt that form of financial service?

Mr. HENNESSY. It is a problem with the banking system. The local banks don't make consumer loans in these countries, in Asia particularly. It would be difficult.

Mr. LONG. I don't think the sum of money that you mentioned is a very large one, in fairness to you. I do think the fact that banks are lending to their own employees is unsound. This is not exactly an arms-length situation. It is the old case of an institution being run

for the benefit of the insiders rather than for the benefit of the people it serves.

Mr. HENNESSY. That is always a danger in this kind of situation.

Mr. LONG. I wish you would get away from it.

Mr. PASSMAN. Finally, you made the decision within the Bank as to the limit. There is nothing to keep this from getting out of bounds. I think the policy may not be good and you should have a look at it.

Mr. HENNESSY. Yes.

TECHNICAL ASSISTANCE SPECIAL FUND

Mr. PASSMAN. I notice in your justifications you indicate there is a technical assistance special fund. Do they perform the same type of services as performed by the bilateral technical aid program and the U.N. expanded technical aid program?

Mr. BEACH. We have a technical assistance special fund. That has been comprised of contributions from roughly 20 member nations.

Mr. PASSMAN. That is all I am asking. I don't care who provides it. I am asking if you have a technical assistance special fund whereby you do this same service that you do out of other U.S. technical aid funds.

Mr. HENNESSY. We have a technical aid special fund and we use that for feasibility studies and other types of activities that we cannot fund from other sources.

Mr. PASSMAN. Isn't that the same thing that is handled under our bilateral technical aid program and by the U.N. expanded technical aid program? I think there are about seven of these programs doing the same type of work.

Mr. HENNESSY. If I may make a point there, I agree with your comment that there are many people doing it. There are tremendous needs in Asia for this type of service.

ASIAN VEGETABLE RESEARCH AND DEVELOPMENT CENTER

Mr. PASSMAN. You have another organization recently put together out there. I doubt the committee is familiar with it. You call it the vegetable research center. They cooked up a little organization out there with about 15 nations, all of them put in, and I think it is known as the the vegetable research center, is that correct?

Mr. BEACH. The Asian Vegetable Research and Development Center?

Mr. PASSMAN. I think they may call it that.

Mr. BEACH. Yes, the Asian Vegetable Research and Development Center.

Mr. PASSMAN. Are you familiar with that?

Mr. BEACH. In Taiwan?

Mr. PASSMAN. I think it is headquartered in Taiwan or Manila?

Mr. BEACH. Yes, sir.

Mr. PASSMAN. I bet few members of the committee know that this was cooked up almost overnight, and a separate organization operating completely independent of all of the others was created. Again, from little acorns big trees grow.

They want more money now. Are you familiar with the organization?

Mr. BEACH. Yes.

Mr. PASSMAN. Do you contribute to the organization?

Mr. BEACH. The Asian Development Bank does contribute. It has contributed in the past year to that organization.

Mr. PASSMAN. It has?

Mr. BEACH. Yes, it has.

Mr. YATES. What is the name of the organization?

Mr. BEACH. The Asian Vegetable Research and Development Center.

Mr. PASSMAN. This is a new one and is fast growing. I doubt the members know about it.

Mr. BEACH. May I make a point about this?

Mr. PASSMAN. Yes.

Mr. BEACH. It was set up in Taiwan to do research on production of vegetables, and it has been an important part, I think, of the overall effort on the part of agricultural development in Southeast Asia.

Mr. HENNESSY. And to keep people on the farms.

Mr. PASSMAN. Let me make this observation. It is a bit embarrassing. We think we have all the answers.

I was out in Japan a few years ago. They have their professional meetings of business people. Dr. Ochsner was arriving there, and he said, "We want you to address this meeting."

I knew we had one thing in common in Japan—they produce rice and we produce rice. So I thought I would talk about rice.

We are lucky to get one crop a year with the rich soil we have, and I found out they get three crops a year.

Let's go to Taiwan. I forget who was with me, but the Secretary of Agriculture gave us a luncheon. We had sweet potatoes. I said they were delicious.

He said, "Yes, they are fancy yams. We brought them from Louisiana and improved on them."

I said, "Is this one of your main exports?"

He said, "Yes. We export now something like 25,000 cases a year of sweet potatoes back to the United States."

I said, "I thought we had a good yam and you picked it up and brought it out here and made it better. And now you are shipping it back to the United States and getting part of our market."

Mr. LONG. At least we are getting something back from foreign aid.

Mr. PASSMAN. When you are talking about vegetables, these people know what it is all about because they get at least three or four yields per year off the same land. Is that right?

Mr. BEACH. They certainly do.

Mr. PASSMAN. What contribution are we making to this outfit with our technicians and money?

Mr. HENNESSY. I think there are certain things we know and they don't know, and there are certain things they know and we don't know. They have developed new grains and new——

Mr. PASSMAN. They had a complete rice failure there last year. They came up with a new strand, and it was a failure. They thought it was going to revolutionize the rice market. We said it wouldn't work. They insisted on going through with it, and it wound up a failure.

Mr. LONG. In connection with the tax-exemption business, what I would like to get would be an estimate of the amount of money which the Treasury loses as a result of the fact that these multilateral Banks

do give the tax exemption to U.S. and foreign employees working for the Bank. It would be helpful if we could get it broken down by each one of the Banks.

Mr. HENNESSY. It will be a rough estimate, but we can provide it. We will have a definitional problem in the sense the people who work in the institutions in the United States pay the taxes and are reimbursed by the institutions. It comes out of the Bank income in that sense. We will define that and how much that is.

Mr. LONG. And give us to what extent it is paid for out of Bank income. My guess is we ultimately make up for that, and we are entitled to know what it is.

[The information follows:]

U.S. nationals employed by the World Bank and IDB pay Federal and State income taxes. They are subsequently reimbursed for taxpayments on the salary portions of their income by the institutions, which treat these reimbursements as administrative expenditures to be charged against gross income.

Nonsalary income of U.S. nationals is fully taxable. The institutions do not reimburse their U.S. employees for taxpayments on nonsalary income.

It should be pointed out that World Bank and IDB salary scales are on a net-of-tax basis, and thus fully take into account the facts that non-U.S. nationals' salaries are not subject to tax, and that U.S. nationals' income tax payments (on salaries only) are reimbursable.

Total reimbursements to U.S. nationals by the World Bank were budgeted at $4,232,000 for this year ending June 1973, and for the IDB at $1,443,500 for the year ending December 1973.

If foreign nationals were subject to Federal and State income taxes as well as U.S. nationals based in Washington, total tax payments included in the World Bank and IDB budgets for their respective 1973 fiscal years would have been approximately $15 million for the World Bank and $7 million for the IDB. Such additional costs would be met through corresponding increases in the administrative budgets.

U.S. nationals employed by the Asian Development Bank are subject to the same Federal income tax provisions as are other U.S. citizens residing abroad. It is estimated that if U.S. national ADB employees had worked in the United States at the same salaries they are paid by ADB, their additional Federal tax payments would have totaled approximately $56,000.

Mr. PASSMAN. The Asian Vegetable Research and Development Center has really grown. They are coming in for $600,000 under AID for fiscal year 1974. We already spent $1,300,000. How much funds have you provided?

Mr. HENNESSY. $300,000 from the Asian bank last year.

Mr. PASSMAN. You are familiar with the fact 12 nations went together?

Mr. HENNESSY. Yes.

Mr. PASSMAN. Each of them made a pledge and said this is sufficient to fund and operate the organization. Are you familiar with that?

Mr. HENNESSY. It started running——

Mr. PASSMAN. This went into business in 1971, Mr. Secretary. So each nation pledged a certain amount of money. I just wonder now why the Asian Development Bank has to get into it, because they said this is it, this is all they need. We have created the fund and will ask for no more money. Now we find out the Asian Development Bank is sweetening the kitty.

Thank you very much.

Mr. Shriver.

MEKONG PROJECTS

Mr. SHRIVER. Thank you, Mr. Chairman.

Your 1972 annual report for the bank notes that the bank has agreed to function as an executing authority for agricultural projects in the Mekong area, and that this was an agreement reached by the world Bank, the U.N. Development Program, and the Mekong Committee. Can you tell us more about this and any other activity by the bank in the Mekong area?

Mr. BEACH. Mr. Shriver, we have this arrangement worked out with both the World Bank and UNDP, in which the bank would act as the executing authority as you mentioned. The attempt there was to look at the whole question of providing an irrigation system and increasing the amount of acreage under irrigation, regulating the water flow, and increasing the number of crops of rice that could be produced in the Mekong Delta area.

Since going from a technical assistance project, which we initially administered under this arrangement, we now have developed that project to the point where some time during this year the Bank itself may make a loan to the South Vietnamese Government for the full implementation of the project.

We have another similar situation in Laos where the Bank has acted as an executing agency or authority and a similar project is under study, and that has reached fruition as well where the bank will provide funds for an irrigation system.

Mr. SHRIVER. Does the Bank have plans to become involved in postwar reconstruction in Indochina?

Mr. BEACH. The Bank feels very strongly it certainly must become involved, and involved in a big way, in postwar reconstruction. I think, as we pointed out in previous comments we have made, the Bank has been active in Indochina, not to a large extent, but it has made $11 million of soft loans. It has had in the very recent past large missions that have been into Saigon for discussion of projects and possibilities by the South Vietnamese Government. We are operating more or less as a partner with IBRD in setting up an arrangement to attempt to mobilize resources for South Vietnam.

I might add on its own initiative the Bank has in the pipeline $22 million of soft loans for Vietnam in this coming year.

U.S. VOTING SHARE

Mr. SHRIVER. In your statement you mention the U.S. voting share in the Asian Development Bank has dropped from the original 19 percent down to only 9 percent. Would this ordinary capital increase that you are requesting bring our vote up to the original level?

Mr. BEACH. Yes, it would. The request we have before you would do precisely that. Our old voting share was 16.5 percent. The voting share itself has now fallen to roughly 7.6 percent. If the request is acted upon favorably, this would return our voting share to what we think is certainly a necessary level.

If I may make a further point about the end product of ADB activity and where loan money was used and who benefited from it, we certainly need to be able to influence them in the future as we have in the

past regarding the end product of the Bank. I think it is, therefore, extremely important that we reestablish our original voting share.

CASH PART OF U.S. SUBSCRIPTION

Mr. SHRIVER. How much of this increase by the United States would be direct cash payment to the Bank?

Mr. BEACH. The request that we have before you for fiscal 1974 is for $121 million. Of that amount actually 8 percent would be cash on the barrel head which is about $9.7 million. An additional $14.5 million would be held by the Bank in the form of nonnegotiable, non-interest-bearing notes. The rest is callable or guarantee capital. So the actual cash outlay this year would be $9.7 million.

Mr. HENNESSY. In other words, the total cash payment of 120 will be 24. They get the $9.7 million right away and get the other $14 million over a 2- or 3-year period.

Mr. BEACH. I might make an additional point. When the Bank was set up we had an arrangement whereby 50 percent of everyone's contribution was paid in and 50 percent was held in callable capital. What we tried to do in the hard loan area is move away from relying so much on direct contributions and go into the capital market to borrow money and relend the funds. This means a lesser direct demand as we move along on the contributing countries and a greater demand on the private capital markets using our callable capital as a guarantee for the borrowings we execute in the private markets. I think this is a very healthy arrangement and certainly moves in the right direction.

PROCUREMENT

Mr. SHRIVER. Are our contributions to the Bank's ordinary capital tied in anyway to U.S. procurement?

Mr. BEACH. No, they aren't at all. Our ordinary capital contribution is contributed on an untied basis among members of the Bank. I might mention that the special fund contribution you have before you is totally on a tied basis, however.

U.S. INTERESTS IN ASIA

Mr. SHRIVER. We talked to both of you about the American interest in having a participating role in the operation of the Bank, whether it is 8 percent or 15 or 19 or whatever percent we are talking about. Would you tell us what that American interest is?

Mr. HENNESSY. I think there are different sets of interests. One relates to commercial interests in the region that we are going to get $100 million in exports out of the $100 million we put into the soft funds. That is one very concrete and tangible thing. A second reason is, if you agree that the Bank is doing the job well, and we think it is from everything we have seen, that we are expanding the market for our products abroad.

As the chairman pointed out, we have had a trade deficit for the last couple years, but the only countries with whom we have a trade surplus are the developing countries. They buy more goods from us than they sell to us. It is in our interest to keep these markets expanding and that is what the Bank, through its loans, is trying to do.

It also goes hand in hand, if you accept the fact the banks are doing a good job that their help in building the infrastructure so private investment can go into the developing countries. U.S. corporations aren't going to build roads and if there are no roads in a certain area of a developing country they are not going to put a plant in there. In that sense it helps U.S. investment in the area.

It also helps our foreign economic policy. I think the President has been very clear on this point. President Suharto of Indonesia and President Marcos of the Philippines have written and told the President of the great importance they attach to the Asian Development Bank. As a regional institution it helps them politically and it helps us achieve our aim of political stability in the area.

One of the real dangers we see is the possibility of the institution becoming dominated by the Japanese and our no longer having the level of influence that it is important for us to have in that part of the world. There is a vacuum developing with the U.S. withdrawal and the Japanese coming in and many countries are afraid of post-World War Japanese domination. We are much better off with the multilateral institutions in comparison with the Japanese use of $20 billion they have in bilateral mechanisms to get more investment or to penetrate other markets. The rules of this institution benefit us and allow us to compete more favorably.

So I would say there are political interests and commercial interests and economic development interests in our participation in the Asian Development Bank at an appropriate level.

We think if we put in the amounts we ask here we are going to get a good return in that sense from our money, and it is not an overwhelming burden on the U.S. budget in the form in which it is being put in.

Mr. SHRIVER. Speaking of the burden, you are really asking for a little over $9 million in cash outlay, is that right?

Mr. HENNESSY. In hard funds. We are also asking for $100 million in soft funds. That will be expended over a 7- to 8-year period. You can figure an average $6 to $10 million a year in actual cash outlay by the United States, and you add to that the $9 million. So we are talking about maybe $15 million outlay.

Mr. SHRIVER. In the coming fiscal year?

Mr. HENNESSY. In the coming fiscal year, and the next fiscal year will be about the same amount, and the year after that will be about the same amount. So it will flow back in balance-of-payment terms. The soft funds will have financed the U.S. export of machinery or consulting service or something like that.

Mr. SHRIVER. Is there anyone in the room representing the State Department?

Mr. HENNESSY. They did not come up. Secretary Rogers has submitted a letter for the record, and they would be pleased to testify at any time the committee would like to hear from them.

Mr. SHRIVER. Ordinarily they are here in the room during the testimony if there is a foreign policy question as to the American national interest in a program. I was wondering why they are not here.

Mr. HENNESSY. In the past we have done it more by letters and Secretary Rogers——

Mr. SHRIVER. For instance, another multilateral institution we hear from is the United Nations, and they are here at that time.

Mr. HENNESSY. We will be pleased to have them up here.

Mr. LONG. If you have them up here, that means bringing the committee back. I think Mr. Shriver is correct. Why should we have to come back here? We have plenty of things to cover. Why should we have to come back to suit the State Department's convenience. Why can't they be here at the time you are to answer questions that come up?

TRANSFERS OF ORDINARY CAPITAL TO SPECIAL FUNDS RESOURCES

Mr. SHRIVER. You say the Bank has transferred $51.6 million from its ordinary capital to the special fund. What part of the Bank charter allows this?

Mr. BEACH. There is provision in the charter which allows the Bank to spend 10 percent of its unimpaired ordinary capital for special funds operations. And on the basis of that they have, as you indicated, transferred to date $51.6 million.

I might mention too, that they have been compelled to do this because of the exceedingly tight situation in which they find themselves regarding special funds. In my testimony I point out that the Bank has in the pipeline something like $167 million of soft loan projects over the next 12 months and at this stage they have, including the set-aside, roughly $70 million of available funds against which they can make commitments. So the Bank is up against it in a very crucial sense.

U.S. SHARE OF SPECIAL FUNDS

Mr. SHRIVER. If we contribute the $100 million for the special funds that you have asked, our share of the funds would be 29 percent.

Mr. BEACH. That is right. It would go to that figure.

Mr. SHRIVER. What is the reason for the U.S. contribution of 29 percent while our voting strength in the ordinary capital account is set at 19 percent?

Mr. BEACH. I will make one comment about that. If we did make the initial contribution of $100 million, our share would go to 29 percent, which is almost identical to our original contribution share as a percentage of contributions coming from all donor countries to the ordinary capital of the Bank. In other words, under the initial agreement and circumstances that prevailed at that time our contribution of $200 million was precisely 29 percent of the contribution from all donor countries. In special funds we are talking only about donor countries which contribute to this fund. I think as things currently stand the Japanese have over 50 percent of the special fund contributions and their voting share currently is also about 19 percent.

Mr. SHRIVER. In your justifications you point out the arrangements regarding member countries' contributions to the special fund vary in terms or conditions with each contributor. Would you give us some examples of these varying terms.

Mr. BEACH. Initially most of the countries did contribute on a tied basis. Contributions from Japan, Germany, Great Britain, Canada, and so forth were made on a tied basis, meaning in effect that they

can only be drawn down for purchase of goods and services in Canada.

Interestingly enough, in the last year when we have been so much concerned about our procurement share and the Japanese, I think, have become awfully concerned about the high percentage of their procurement share, Japan has placed its last contribution of $39 million to special funds on an untied basis. By the same token Canada has converted its original contribution to the special fund from a tied to an untied basis. So there is some movement away from contributions on a tied basis.

I think in view of this it is quite interesting that the Bank is certainly willing to accept any contribution we wish to make at this time on a tied basis.

A further point with respect to this is that I think the U.S. contribution and participation in both special funds and ordinary capital is absolutely crucial to the future of the bank. We have a situation which Mr. Hennessy mentioned in which the Japanese are out front. They find themselves in a very exposed position. The Europeans and Canadians are also concerned about the Japanese dominance in terms of contribution and would like the United States to come in and balance it somewhat.

Mr. HENNESSY. I think many of the developing countries in the region have a similar feeling. They very much want the U.S. presence and welcome increased contributions to the Bank of both special and ordinary capital.

Mr. BEACH. In all of the three institutions, I think in terms of the criticalness of institutional survival, this Bank is at the point where you fish or cut bait. Do you go the route without the United States, with the United States at a very low level, or is the United States going to go along at an appropriate level. I think when each institution gets to be more or less self-sustaining we can do without or postpone as in IDA. This Bank was set up in 1966 and the United States has never put in soft funds. I think the Bank has not yet reached the stage where it is a self-sustaining institution, where it has enough flexibility to stand alone. I think the clear decision here is, does the United States really have a role to play in that part of the world and is this institution a part of it.

Mr. SHRIVER. But we have put up a great amount of soft funds, not through this Bank but through bilateral programs, and also enormous expenditures in South Vietnam and the whole Indochina area.

Mr. BEACH. That is correct. But the policy we are pursuing is to try to reduce our physical presence and our bilateral presence particularly in that part of the world as much as possible. It is a heavy drain. I think we have 4,000 or 5,000 people in A.I.D. in the area.

ADB LENDING CRITERIA

Mr. SHRIVER. We have discussed in the past the lack of criteria for determining eligibility of individual countries for loans from special funds. I note on page 6 of your annual report the board of directors has considered and addressed that problem.

Mr. BEACH. Mr. Shriver, in the past year the board has specifically looked at its strategy and criteria for lending to the lesser developed member countries. As a result we have more or less drawn a list of 12

regional borrowing countries from the Bank, which are those that overwhelmingly qualify for special funds assistance. We have used as criteria the per capita incomes of these countries, their balance of payments, their trade situation, and their debt service burden. Based on these various criteria we have been able to come up with a list of 12 countries. This doesn't necessarily mean that the other member countries would be ineligible to borrow from the Bank on soft loans. But each such loan would have to be justified on its merits on a case by case basis.

Mr. SHRIVER. I notice in the report of July 1972 the board decided it was "unrealistic" to attempt to group the developing countries into high, low and intermediate priority countries. So what good is new criteria of they are not going to be used?

Mr. BEACH. I think the new criteria set is broad enough and loose enough to indicate the relative needs and relative ability of these countries to repay loans which the Bank has made so we can focus on the group itself and even within the group, Afghanistan, for example, I think almost everyone would admit, is less well off than Papua, New Guinea which has benefited very much from Australia's guidance and leadership. We have a rough guide only.

One of the problems we run into is certainly one of adequate data in these various countries. It is very difficult to determine what the per capita income of a country might be. So the guidelines as I say are rather rough and ready. Nonetheless I think the grouping itself is fairly correct.

Mr. SHRIVER. Thank you. I think you have presented a very good hearing for the Asian Development Bank so far.

Mr. BEACH. Thank you.

FIVE-YEAR PROJECTIONS

Mr. LONG. Mr. Hennessy, looking into this 5-year growth schedule up to 1978, I observe that there is proposed a growth in the total U.S. contribution to the Asian Development Bank of five times the total contributions to date.

Mr. HENNESSY. I don't have that table in front of me, Dr. Long. I think those are figures we provided to the committee on a projections basis. This is really only indicative planning. They are really extrapolations. We haven't actually programed out that far.

Mr. LONG. "The Department of Treasury, straight line projections."

Mr. HENNESSY. Yes.

Mr. LONG. Don't you think we should consider this as a possible future appropriation request.

Mr. HENNESSY. This is to discuss and to talk about. This is one of the reasons I think it is useful. The first footnote is:

> The projections for certain international financial institutions are made in the absence of either: (*a*) international discussions or negotiations on the future level of multilateral funding for such institutions, or (*b*) budgetary decisions by the executive branch. Accordingly, the figures shown represent only a continuation forward of present levels and timing of U.S. inputs to the respective institutions and do not necessarily reflect the intentions of any participating government.

They are indicative figures.

Mr. LONG. This is quite a dismal picture you present to Americans. We are all concerned about foreign aid. Everywhere I go people are

wondering how we can justify what we are doing with all of this foreign aid which is not being reduced. Most other programs are being cut back. In this case, far from cutting back, you seem to be planning to increase the U.S. contribution by 1978 by over five times what it has been to date.

Mr. HENNESSY. You are looking at an authorization figure of $1.15 billion?

Mr. LONG. I am looking at the estimate increase.

Mr. HENNESSY. Of 614.

Mr. LONG. I am looking at a cumulative total of $1,103 million through fiscal year 1978 to the Asian Development Bank as compared to a cumulative total of $200 million to date.

Mr. HENNESSY. The billion is a cumulative figure there.

Mr. LONG. Of course it is. We contributed $200 million so far. How long has the Bank been in existence?

Mr. HENNESSY. Since 1966.

Mr. LONG. So that is 7 years. So in the last 7 years we have contributed $200 million and in the next 5 years it is proposed we contribute an additional $900 million.

Mr. HENNESSY. A little under 900.

Mr. LONG. It goes from $200 million up to $1,103 million.

Mr. HENNESSY. That includes the $200 million in it.

Mr. LONG. Of course it does. That is an additional $900 million.

Mr. HENNESSY. That is correct.

Mr. LONG. By 1978, the total then will be nearly five and a half times what it is now. This is a tremendous increase that you are projecting and a much more rapid increase than we have had in the last 7 years of the Bank.

Mr. HENNESSY. First of all, the Bank didn't get organized and operative until 1967. It was opened for business in 1967, 1968, 1969 when we paid in the first three amounts.

Mr. LONG. This is a tremendous increase.

Mr. HENNESSY. If you assume that the $100 million for soft funds which was never voted on, at least the conference was not held last year and did not resolve the issue, would have come up with either that figure or some other total, of course you would have had a different base figure. You are right in the sense we have not yet given soft funds and we are now asking that we do contribute and it runs out to an average of $50 million a year.

Mr. LONG. For all institutions the World Bank, the International Finance Corporation, the IDA, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank you are proposing to raise the total U.S. contributions from $12 billion so far since the Bank was founded up to $17 billion, or an additional $5 billion.

Mr. HENNESSY. Over that period of time, a good portion of which is just in the U.S. guarantee form. But you are correct.

Mr. LONG. Don't you think we have to assume that guarantees have got to be made good?

Mr. HENNESSY. These just back up the bonds which the World Bank issues.

Mr. LONG. You are hoping they won't be called on.

Mr. HENNESSY. Right. Even if you assume the Bank went broke and the United States had to pick up the bonds, we would only have to pick up a proportionate share.

Mr. LONG. I am talking about the U.S. contribution, not the total holdings of all institutions.

Mr. HENNESSY. But the callable capital, if it ever had to be called upon, would be called upon on a pro rata basis.

Mr. LONG. You have callable capital of $582 million but the total for all of the callable capital for all of the banks is nearly $3 billion. I am just talking about the U.S. share.

Mr. YATES. What is the pro rata contribution that would be made under this response?

Mr. LONG. That is another thing, of course. The pro rata share so far is 12 percent for the Asian Development Bank. It is proposed that that share would increase to 22 percent by 1978. So you are almost doubling the U.S. share of the contributions toward the Asian Development Bank in the next 5 years. Isn't that true?

Mr. HENNESSY. Here again we have the phenomenon of where we were at 19 and subsequently we have dropped, and the figure we show here is the reduced figure, and you get back to where we were in the beginning under the projection of the Asian Development Bank.

Mr. LONG. Where we were was a percentage of a very small amount. Now you are getting into a doubling of the percentage of a much larger amount.

Mr. HENNESSY. They are ongoing programs. You can't get away from it.

Mr. LONG. Mr. Secretary, won't you agree that you are proposing a tremendous expansion in the Asian Development Bank and in fact all of these multilateral instiutions and that you are——

Mr. HENNESSY. It is a continuation.

Mr. LONG. You are proposing that the U.S. share be expanded.

Mr. HENNESSY. Actually reduced. For instance, these were made before we had conversations on the next round of IDA, and I think it is pretty clear our share is 40 percent of that. We have been talking about getting down to 30 or 33 percent.

Mr. LONG. But on Asian Development Bank, isn't it true you are proposing to almost double the U.S. share, from 12.1 to 21.8?

Mr. HENNESSY. We were 19 percent in ordinary capital; we are down to 9 and we are saying, "Yes, we should go back to 19 percent." That is a doubling from where we are right today.

Mr. LONG. That is what I am talking about. But the 19 percent you are taking is 19 percent of a very small operation. Now we are moving up to 22 percent of a very large operation. The operation so far as we are concerned is five times as great as it is now.

Mr. HENNESSY. I think you can't get away from the fact the banks have ongoing programs.

Mr. LONG. You are proposing to greatly expand the World Bank, these other multilateral institutions, and greatly expand the U.S. share. Isn't that true?

Mr. HENNESSY. No. Overall our share would drop as a percentage of the overall.

Mr. LONG. For all institutions?

Mr. HENNESSY. Not all institutions. In other words, our share will drop in IDA, it will stay the same in the World Bank, get back to where it was——

Mr. LONG. Let's take all institutions. You are proposing the share go up from 31.9 to 33.6?

Mr. HENNESSY. This table was put together before we had the benefit of the last round of discussions.

Mr. LONG. You mean this table is no longer operative, to use the term that has come up lately. Are you repudiating this table?

Mr. HENNESSY. I think we put enough footnotes under (1) so we would never have to accept it to begin with.

Mr. LONG. You would rather not stand by this table then?

Mr. HENNESSY. I am saying that you have to accept it with a lot of caveats.

Mr. LONG. It is your table. I didn't put it up.

Mr. HENNESSY. At the Senate Appropriations Committee's request we did put it up and provided a copy to your committee so that we would have a basis to discuss what the longer term outlook is. I think you can't get away from the fact that yes, the institutions will continue to go on year after year, we will be coming back year after year——

Mr. LONG. For more money?

Mr. HENNESSY. This says for the same amounts of money. The U.S. share of total percentage in the major programs, both in the Inter-American Bank and in the IDA are going to come down. Those are not reflected because this table was a straight-line projection and done in early April.

Mr. LONG. You have baffled me. When somebody comes with a carefully prepared table and in a sense tells me the table doesn't really mean anything, I get confused. Regarding your Asian Development Bank, let's stick to that for a moment—the percentage goes up from 12 to 22 percent. You do say that at one time it was 17 percent. So that you would rather compare the 22 percent with the 17 percent, but that is not in your table. Even if it were, there is still a substantial increase in the U.S. share.

Mr. HENNESSY. If we had done this table as we did I think last year, that 12 percent was 19 percent and you look in the far right and you get back to that 19 percent. That is all I am syaing.

Mr. LONG. I didn't make your table. You had a good chance to make your table look better than it is. I am talking about estimates, not authorizations.

Mr. HENNESSY. These are the estimates. What I am saying is we made the table up in accordance with the request of the Senate Appropriations Committee. They didn't want us to doctor it. The point is right. In the Asian Development Bank——

Mr. LONG. I like your term "doctoring" the figures.

Mr. HENNESSY. We are asking, and that is the issue before you—in the Asian Development Bank our ordinary capital share has dropped down—is the committee willing, is the Congress in its wisdom willing to maintain what we think is a floor level in that institution? That is the issue.

Mr. LONG. If we just take this next fiscal year, you are asking us to come up with $220 million compared with the $200 million for the

whole previous 7 years. So just for this coming year you are asking for a very large expansion.

Mr. HENNESSY. Most of that is for the special funds and then again we have a large proportion of callable——

Mr. LONG. To me the special funds are worse than the others because that is very largely a giveaway. Please don't give us that as an extenuation.

Mr. HENNESSY. I am just explaining.

Mr. LONG. You talk about Japanese domination. Is this a sort of new cold war we are working on? We had to fight the Japanese and defeat them in military war. Now I get the impression we are sort of in an economic conflict with them. You are terribly worried about a country which we spent so much money to build up.

Mr. HENNESSY. I think it is a concern on everyone's part. We want to cooperate with the Japanese and how better to cooperate than be full partners in the institution with them. I think the danger is if we don't cooperate, they are going to go their own sweet way, which would be the natural effect. If they are the only ones putting dough in the bank, they are going to dominate the bank.

Mr. LONG. Wouldn't it be nice if we could get the Asians to take over Asian institutions and not worry about them ourselves. Why do we have to be in everything, dominating everything?

Mr. HENNESSY. I don't think we do dominate. The point is if you made 100 percent of the appropriations request we ask today, the Japanese would have a higher percentage here again than we do. Their economy is one-quarter ours. Relatively speaking they are putting up a lot more.

Mr. LONG. But this is purely for Asia.

What about all multilateral institutions? Are they dominating there?

Mr. HENNESSY. No, they are not.

Mr. LONG. What is their percentage contribution to all multilateral institutions?

Mr. HENNESSY. In the Inter-American Bank——

Mr. LONG. Of all of them?

Mr. HENNESSY. I think it is maybe more misleading than enlightening to group them altogether. Let me go one by one.

In the Inter-American Bank we don't have any extra regional countries. We are inviting others to take the burden off us.

Mr. LONG. Put it in the record. It will take a long time Bank by Bank.

[The information follows:]

Japanese participation in IFI's

	Percent
International Bank for Reconstruction and Development	4.17
International Development Association	6.00
Asian Development Bank ordinary capital	24.6
Asian Development Special funds	63.1

Mr. LONG. The point is we feel we should dominate or come close to dominating.

Mr. HENNESSY. We are talking about parity or slightly below parity in this institution.

Mr. LONG. The Japanese don't feel that urge to move in and dominate all the others.

Mr. HENNESSY. We have no such urge either. We are trying to disengage at a reasonable level.

Mr. LONG. Do you feel we are disengaging when you propose to increase by 5½ times our contributions in the next 5 years and more than double it just this next year?

Mr. HENNESSY. That only parallels what others are doing, and slightly less than the Japanese are doing. That is a different situation than 4 or 5 years ago when we put in everything.

Mr. LONG. It is more of the politics of fear. Usually this argument is used by the military. We are always being asked to do things which are not perhaps in the best interests of the taxpayer and cost the taxpayers money for fear—for fear of the Russians or for fear of the Chinese. They might bomb us and they might dominate various parts of the world militarily.

Now we are being asked to do these things out of economic fear of the Japanese. Isn't that right?

Mr. HENNESSY. I would turn that around and make it positive. I say what we are trying to do is develop a cooperative world system in trade through a better monetary system, and in development through using institutions that don't have each country running out to try to get one leg up on the other.

Mr. LONG. This looks like what we are trying to do.

Mr. HENNESSY. We are trying to sustain what is a pretty good working organization where all of the nations have to come together and agree.

ASIAN DEVELOPMENT FUND

Mr. LONG. No matter what I do I am not going to get you to admit that we are planning to tremendously increase the U.S. contributions to the Asian Development Bank and to all multilateral institutions, even though your table indicates it. Let's pass it by.

Tell me, what is the Asian Development Fund?

Mr. HENNESSY. Until now there has been no mechanism for soft loan contributions whereby every country sits around the table and says, "All right, we are going to contribute 'X' percent ourselves. How much are you going to put in, Japan how much are you going to put in, Germany, how much are you going to put in France?" There is now before Governors a proposal which was approved in principle at the annual meeting, at which there were several Members of the Congress and one from this committee, to set up a special fund.

The United States at that time because of the request of this committee made no commitments in that regard, but the proposal is to convert this different set of special funds into one composite fund in which each contributor would know how much the others are putting up.

Let me tell you one of the reasons why. When the special funds were first put up everyone more or less had a rough idea how much they expected other countries to put up. There was no legal or moral commitment or perhaps to a certain degree there was a moral commitment. For instance, the Canadians put up $27 million with the understanding the United States would probably provide $200 million. The Japanese put up I believe $170 million with the idea the United States would put up if not $200 then $150 million. However, we were not able to convince the Congress and have not, in fact, put up anything.

To put it bluntly, the Canadians and other countries felt sandbagged and we would like to find a mechanism whereby each country can count on the other to pick up its own pail of water.

Mr. LONG. Doesn't anybody ever come to Congress?

Mr. HENNESSY. It is in my statement.

Mr. LONG. How can you say Congress hasn't done its job when they are not asked?

Mr. HENNESSY. In our previous testimony on the $100 million we did say that in our discussions with other countries they were counting on the United States coming up with a similar amount, and we haven't come through with that.

Mr. LONG. So what it amounts to is that you are going to combine the special funds and the Asian Development Fund all in one item by 1978?

Mr. HENNESSY. Right. The proposition which other countries have offered us is that the United States would, in effect, get double duty dollars. The $100 million which we said we would endeavor to get, and on which the $240 million now paid in by others was based on the idea of our effort to get $100 million, they would let bygones be bygones and say, "Now we want over the next 3 years to put in $525 million. We will let you take your whole $100 million and that will represent two-thirds"——

Mr. LONG. They are both soft loan windows?

Mr. HENNESSY. Absolutely. This changes the mechanism.

Mr. LONG. It is not just a change of name for special funds to Asian Development Fund, but also a change of mechanism.

Mr. HENNESSY. It is precisely. The only change would be in the way in which you contribute. It would go to an IDA type fund where everybody sits around the table and you finally get to an international agreement where everyone knows how much everyone else is going to put in.

Mr. LONG. The special funds now, as I understand it, are strictly voluntary but, this will put us in a binding situation. Right?

Mr. HENNESSY. When we get to the point of signing an international agreement it would make a commitment.

Mr. LONG. Once we have moved from special funds to the Asian Development Funds we will lose a lot of freedom of action. Isn't that true?

Mr. HENNESSY. If we were going to do it without congressional assent, that would be true.

Mr. LONG. Even if Congress did agree, that still means the United States will have given up some freedom of action.

Mr. HENNESSY. There will be a certain degree of that.

What has happened with the voluntary system in the past, as a practical matter, is since no country wants to put dough up unless everyone else puts up something and the voluntary system has in fact resulted in a major country not putting something up, the other countries feel that the mechanism doesn't seem to work terribly well because now they have to go back to their parliaments and say, "Hell, we put——

Mr. LONG. I get the picture now. This is a special fund. It hasn't succeeded very well because it has been voluntary. A lot of countries

are not anxious to participate, and this puts them in a binding situation.

Mr. HENNESSY. Anxious to participate but not without knowing how much other countries are going to put up. The Congress has in the past voiced concern with us——

Mr. LONG. If we go into this, we should go in with our eyes open. Once we have agreed to it, we have lost our freedom of action.

Mr. HENNESSY. I would qualify that. You have less freedom once you have agreed internationally and with the Congress coming along. Then you sign up as we did with IDA over a 3-year period putting in "X" amount of dollars.

Mr. LONG. It is like the situation where a fellow volunteers for the armed services. He is perfectly free not to volunteer, but once he gets his name on that enlistment line he has lost a certain amount of freedom of action. In fact if he does not serve, he goes to jail.

Mr. HENNESSY. I think in this sense, even if we sign internationally as we said, we are not going to jail. In the last analysis, if we signed up internationally, it is still subject to congressional appropriation.

Mr. YATES. Would you say we have tentative commitments with other countries subject to congressional approval and their parliaments?

Mr. HENNESSY. Correct. The existing $100 million in the minds of others, and in our own mind, is a tentative commitment. That commitment was I would say less binding than one would normally think because it was not after full consultations with this particular committee. It was done primarily at that time with the assent of the authorizing committees.

Mr. LONG. How on earth did anyone have the nerve to say that they have got some sort of a tentative commitment without getting money from Congress? I don't think this committee has any power tentatively to commit the United States.

Mr. YATES. I put my question to him: Was it a tentative commitment subject to the approval of Congress and other parliaments?

Mr. LONG. Then it is not a commitment at all.

Mr. HENNESSY. It is a chicken and egg story.

Mr. LONG. You can't call anything a commitment when we are not committed. We are not committed in any way by what some Treasury officials say in meeting with some group even if you consulted the chairman of the committee.

Mr. YATES. I would assume if a group of officials meet, as apparently this group met to decide on what the future operations of the Bank would be and their various funding, they would look at each other and say, "We need so much money. In order to get this money we have to get the approval of Congress. If we do, we will be able to put forward this much money." I would assume that is a tentative commitment.

Mr. LONG. It is plenty tentative. The word "commitment," I wouldn't want to use.

Mr. HENNESSY. Tentative agreement or understanding.

Mr. LONG. "Understanding" or "proposal" or something like this. I would wish we would get away from the word "commitment" because again and again you come back to us and tell us we have somehow been committed by some group meeting.

Mr. YATES. As I understand the word "understanding" that carries a certain amount of commitment with it.

Mr. LONG. Then I wouldn't want to use that word.

Mr. YATES. What word would you use then?

Mr. LONG. "Discussion" or "plan."

Mr. HENNESSY. May I introduce Mr. Weintraub, Deputy Secretary of the State Department. I think he can answer many of these questions.

NUMBER OF AID EMPLOYEES IN ASIA

Mr. LONG. One more question. How many AID employees are in the Asian area?

Mr. HENNESSY. I don't know the exact number. We do have a large number.

Mr. LONG. Give us the number in Asia, and how much payroll costs are, both direct and indirect, and then how much you feel those costs can be reduced.

Mr. HENNESSY. They have a reduction plan. AID has a tailored plan we can provide for the record.

[The information follows:]

AID STAFFING IN ASIA REGION

The President's FY 1974 budget sets a limit of 4,800 A.I.D. direct-hire employees in the Asia region as of June 30, 1974. The table below shows the number of direct-hire A.I.D. employees assigned within the Asia region as of May 31, 1973; the estimated levels as of June 30, 1974; and the direct and indirect costs associated with those personnel levels.

By June 30, 1974 the number of employees will be reduced by 685 with an estimated reduction of $6.3 million in total payroll costs.

	Personnel assigned			Total payroll costs (thousands)
	U.S. nationals	Foreign nationals	Total	
As of May 31, 1973	1,586	3,817	5,403	$54,369
As of June 30, 1974 (estimated)	1,414	3,304	4,718	48,020

Mr. LONG. Thank you. These are all the questions I have.

Mr. Bevill?

JAPANESE ROLE IN ASIA

Mr. BEVILL. Thank you, Mr. Chairman.

I would like to ask Mr. Weintraub a question here I believe Mr. Shriver started on a moment ago. We seem to be real concerned here about the fact that Japan may dominate the Asian Development Bank. Is this something that the United States should continue pouring money into to try to keep up with Japan or to try to keep its influence ahead of Japan?

I notice we contribute 9 percent now and Japan contributes 25 percent. I am leading up to this question: Wouldn't it be to our interest to let Japan take this bank over? Isn't that in line with our policy in Asia and the Pacific?

Mr. WEINTRAUB. Let me if I may, alter the assumption. I don't think it is a question of competing with Japan, but rather a question of what kind of cooperative relationship exists in the Asia sphere involving ourselves, Japan, and countries that receive the aid.

At the moment the U.S. share of capital stock is 9 percent compared to Japan's 25 percent. It is at the moment I think that is true—a bank which is dominated by Japan because of the fact that they have made the contribution and we haven't. The countries and the region itself are terribly concerned about Japanese domination. It comes about through a whole history and feeling that they don't really want to depend only on one country. The Japanese themselves in political relationship in the area don't want to be outstandingly dominant in that particular institution.

What we are saying in terms of political relationships in Asia, we find it in our interest to play a substantial role. The developing countries in the area would hope it is that way and say it strongly to us, and the Japanese have said this to us.

Mr. BEVILL. It hasn't been long ago since I was informed that our overall policy over there is to build Japan, make Japan strong and give them all the help we could so they would be the leader in Asia and the Pacific area.

Then when these questions come up about concern about Japan taking too big a role in this development bank, it seems that we spend money to build these countries up and then we have to turn around and spend money to keep them from being too strong. It gets us in a rather awkward position, I think, and that is why I was anxious to get it clear.

As I understand we are defending Japan, we furnish a military umbrella to Japan; is that right?

Mr. WEINTRAUB. To a great extent we do; that is right.

Mr. BEVILL. They have no standing army or navy. They have a police force.

Mr. WEINTRAUB. It is called the self-defense force, and it is within their constitution they are not to have.

Mr. BEVILL. Here is a nation we are using our tax dollars to defend and it is costing the American taxpayers a great deal of money. Then we say we want to build them up, and then we say we don't want them to go too far, and we have to spend money to do that. It seems any direction we turn in its costs us money. That is the point I am making here. It looks like there would be some way we could in our foreign affairs have a policy that we wouldn't have to pay both sides to survive.

U.S. ROLE IN ADB

Mr. WEINTRAUB. I think the position we are taking is not to seek dominance in that institution by any means, but to seek some type of balance, and balance results from a long history. The coprosperity sphere that existed before World War II is perhaps dead, but people still remember this. The Japanese themselves feel that the institution really will not last and be viable fully if it becomes predominantly a Japanese institution. It is not just ourselves. The Europeans are members of that bank. I don't know the number of members. It must be about 38 or so at the moment.

Mr. BEVILL. Thirty-seven.

Mr. WEINTRAUB. We are suggesting that the United States play a role, by no means a dominant role and by no means a leadership role. In other words, I think that particular era probably has passed. But to play a balanced role in the institution. This is the point really.

Mr. BEVILL. It is the State Department's position then that these requests of the Asian Development Bank as recommended by the Treasury Department should be approved. Is that right?

Mr. WEINTRAUB. Yes, sir.

Mr. BEVILL. And the State Department has examined this and is familiar with the amount of money they are asking for?

Mr. WEINTRAUB. Yes. The Secretary of State has submitted a letter to the chairman of this committee along those lines.

INCOME TAX EXEMPTIONS

Mr. BEVILL. Mr. Secretary, I don't want to belabor this point but I share the concern of the committee about the employees not paying income tax. I think that I see what has happened. Of course, Congress did not pass any legislation giving these employees tax exemption, so the approach was made by the Bank. You go ahead and pay your tax to the United States and then we will reimburse you.

Mr. HENNESSY. Yes, sir.

Mr. BEVILL. We are saying that they are paid, in effect, up to $20,000 when their salary would be $25,000 to $27,000 in effect?

Mr. HENNESSY. Yes. when we make comparisons between the secretary in the World Bank and a secretary who works in AID, we make the after-tax comparison or concurrently we gross it up. What we set is a standard in the institution because of a tax quirk they should not be able to pay any premium over the local market for secretaries.

Mr. BEVILL. Under the tax laws of the United States as passed by the Congress when they reimburse for their income tax that is added as taxable income?

Mr. HENNESSY. I don't know the answer to that question, quite frankly. It would be income on income, so to speak.

Mr. YATES. It is or not?

Mr. BEVILL. It is counted as income?

Mr. HIRSCHTRITT. There is a system by which it is calculated by the tax people.

Mr. BEVILL. In other words, you run the amount of tax Mr. John Doe has paid there on a computer and figure out on the average what his tax would be and that is it?

Mr. HIRSCHTRITT. Yes, sir.

Mr. BEVILL. This may be a precedent all over the world, and it strikes me as not a good system but it may be, I am uninformed on that.

The United Nations does this thing?

Mr. HENNESSY. Precisely. The idea is that diplomats and people in international institutions working away from home don't pay the local tax. The paradox arises here that U.S. citizens would be at a disadvantage because the institution is in Washington, if they had to pay income tax. That would create incentive to move the institution away or it would mean U.S. citizens would no longer find it attractive to work in the organization.

Mr. YATES. American employees of the U.N. pay income taxes; do they not?

Mr. HENNESSY. I believe that they do on the same tax reimburseable basis.

Mr. BEVILL. Is this true of the Inter-American Bank?

Mr. HENNESSY. Yes, sir.

Mr. BEVILL. We have six international financial institutions?

Mr. HENNESSY. They are all the same. The only distinction is that the Asian Bank, which is outside the United States, falls under the general provisions of the U.S. tax laws, whereby if you are outside the country 17 out of 18 consecutive months working for any employer you are no longer liable to pay U.S. income tax.

Mr. BEVILL. Mr. Beach, are there any other——

Mr. LONG. Do you have many more questions? We could resume at 2 o'clock.

Mr. BEVILL. Mr. Chairman, we can stop at this point if that is what you wish.

Mr. LONG. Very well. We will resume at 2 o'clock.

AFTERNOON SESSION

Mr. PASSMAN. The committee will come to order.

I yield to the gentleman from Massachusetts, Mr. Conte.

MANAGEMENT OF U.S. PARTICIPATION IN ADB

Mr. CONTE. Recently, the GAO made a report to the Congress entitled "Improvements Needed in System for Managing U.S. Participation in the Asian Development Bank." One of the recommendations of that report called for the establishment of an independent evaluation system on the effectiveness of the Bank's programs. As the head of our delegation to the Bank's Manila meetings, Under Secretary of the Treasury Paul Volcker urged the Bank management to adopt such an evaluation system in order to insure the continued effectiveness of the Bank's programs.

Has the Bank's management responded to this suggestion in any way?

Mr. BEACH. Mr. Conte, I can give you a little background in answering your question here. Back in December Mr. Weatherbee who was the Director at that time, made a similar request to President Inoue shortly after he came to the Bank as the new president. He had a long discussion with him, in which he emphasized again how important we think this type of mechanism is. At the same time, Mr. Weatherbee chaired a couple of meetings among other board directors to get some work done outside the Bank management per se. Then in March and again in April I myself had conversations with the vice president of the Bank about moving on toward this type of mechanism, and he assured me that the Bank had begun work on this very concept that we had raised.

Since that meeting itself, I have talked further to the vice president and he assures me that they have taken the message to heart and they are working toward this. I don't know how long it is going to take, but all I can say is, from my standpoint it seems like movement toward this objective is being made.

GUIDELINES FOR LOAN APPRAISALS

Mr. CONTE. That same GAO report called for the establishment of guidelines which would stipulate the desired depth and parameters

of the U.S. appraisal process of proposed projects. The report also said that these guidelines should contain a clear statement of policy regarding the appraisal of the economic and technical aspects of the projects. Treasury Department has accepted this recommendation. Could you provide for the committee a status report on the drafting of the guidelines and what directions these guidelines are taking?

Mr. BEACH. I think one of the real problems there, Mr. Conte, has been the fact that once a project came to the Board for consideration in the past there may not have been enough of a lag time between the actual submission of the project to the Board and the point at which the Board would consider it. In addition, we had difficulties initially in circulating information about projects in the pipeline. Over the past couple of years however, we have had two changes in the Bank's operations, which I think largely get at the problem that you described here.

One, we now publish on a monthly basis all of the projects which are in the pipeline and which the Bank is actively considering. This information goes to all of our missions (AID missions or Economic Commercial Offices) of the countries in question, and they in turn, should they have any question about these various projects, at this early stage can make their views known.

I might mention a case in Korea, in which there is an Inchon Port Development Project. An employee of the Department of Agriculture, in looking over this project, wondered whether what the Asian Development Bank had in mind overlapped or dovetailed with work that the Department of Agriculture had been involved in in Korea. As a result, we touched base with Bank management and raised this question.

They assured us there would be no overlap, and we were able at an early stage in this whole process to iron out difficulties that may have conceivably occurred.

Second, we have a 3-week period from the time of submission of a document to the Bank board and the point of consideration. We send all this information to our mission in the country in question, be it Indonesia, Thailand, or Korea, and ask for their comments. Should there be a situation in which we have not received comments directly to Washington through the mechanism and back to us, we in turn can ask the Bank to postpone consideration of this project and they have been very willing to do this in the past.

Since I myself have been out there, this has occurred on two or three occasions. The Bank has been very willing to postpone consideration until we have had our instructions. We have been able to work these matters out quite well. In addition, there is telephonic communication that goes on back and forth between Manila and Washington regarding these projects.

TECHNICAL ASSISTANCE

Mr. CONTE. The ADB has given considerable emphasis to technical assistance in past years. How much of this technical assistance is for project preparation? How much of the technical assistance is rendered on a nonreimbursable basis?

Mr. BEACH. Again this is a rough estimate. I would have to look at the facts closely and submit those. I believe it breaks down on a half-

and-half basis. Half of the technical assistance we provide goes for project preparation, in effect, and the other half roughly again goes for advisory services of some sort which may affect an ongoing project.

With regard to the nonreimbursable aspect of this, we have a provision in the Bank that if we should extend technical assistance on a grant basis and for project preparation and the project reaches fruition stage where the Bank is about to finance it, then only $100,000 of that technical assistance grant remains a grant and the other is charged against the loan that in effect will go to the country in question.

To date through 1972 we have had 16 such technical assistance projects turn into full-blown development projects. This is something I think we have to emphasize to a very great extent because the needs are so real in these lesser developed countries in terms of being able to prepare projects and bring them along to fruition.

CONCESSIONAL LOAN TERMS

Mr. CONTE. There was a lot of discussion with regard to soft loans and concessional loans. There has also been testimony to the effect that there is concern on the part of other countries that we are not coming forth with our share of the contribution of soft-loan window. Could you elaborate on that, and on what a soft loan or concessional loan is? You have it in your justifications, and the explanation is very skimpy. We ought to have a little more in the record.

Mr. BEACH. To begin with the second part of your question about what is a soft loan. These are loans which are at less than market interest rates and usually with a longer repayment period than would normally be the case, usually with a bit more extensive grace period. These are loans that go to countries which are the lesser developed of the Bank's member countries.

Mr. CONTE. Repayable in local currency?

Mr. BEACH. Repayable in the currency in which the loan was extended, hard currency but on easier financial terms. I might followup on that point. The Bank only provides the foreign exchange costs of any project and all of the foreign exchange provided is hard currency. The recipient country repays in hard currency.

As I mentioned this morning, the average terms of concessionary lending are an interest rate of 2½ percent, term of 25 years and grace period of 6 years. The Bank has been perhaps a bit more conservative than other institutions but quite concerned about becoming involved in projects which will reach fruition, be successful, and I think it has been quite frugal in the type of project it has funded.

With respect to the need for this type of financing in Southeast Asia, part of the Bank's borrowing countries, recently we have had information concerning letters which both President Marcos and President Suharto have sent to President Nixon, underlining the importance they attach to Special Fund resources of the Asian Development Bank and the extent to which the ADB has been actively helpful in their development efforts.

REPLENISHMENT OF SPECIAL FUNDS

Mr. CONTE. Will the original contribution of $100 million be treated as a major source of future replenishment of the soft-loan funds?

What will be the effect of this on the contributions of the other industrial members?

Mr. HENNESSY. In the original soft fund contributions contemplated back in 1967, there were understandings, agreements, whatever you want to call them, which were made among the developed members that is the donor members of the Asian Development Bank, to contribute somewhere between $300 million and $340 million over a 2- to 3-year period.

The United States at that time said that $200 million seemed to be a reasonable share on our part. Later, it was scaled down to $100 million, which would have worked out to about exactly one third of the amount programed.

Mr. SHRIVER. Who made that agreement?

Mr. HENNESSY. It was a large U.S. delegation in which there were some 10 Congressmen, I believe, from the authorizing committee—not from the appropriating committees. I think this was a failure in this connection and we have recognized it since the appropriating committees were not up to date. Although it was on a voluntary basis, everyone was doing it with the understanding we were going to kick in a reasonable or proportionate share. That has not come about.

The Bank is now looking at a new replenishment of soft-fund resources and what they have found is that other people are not willing to put in voluntary contributions unless they know what comes from other people, because of their experience in the first round of contributions. The double-duty dollar aspect comes from the fact that so far as the original $100 million is concerned other countries will say now, "Let bygones be bygones. Assume that you throw in that $100 million toward the future replenishment of $525 million that will count toward your contribution."

The cumulative percentage at the end of that second replenishment for the United States would then be 20 percent including a final $50 million installment. Just in terms of the new replenishment, $150 million from the United States would be 29 percent but in cumulative terms. The total amount would be only 20 percent. It is a double-duty dollar in the sense that our contribution serves for two rounds. It is a good deal for the United States and it meets some of the concerns that have been expressed by this committee.

Mr. CONTE. You mentioned this morning this would restructure the Bank in some way.

Mr. HENNESSY. That is correct. They are going to take another look at several aspects. One is the independent audit mechanism and another is the organization of the Bank, personnel policies, budget, et cetera. They have a new president. He has had long administrative experience as well as financial experience and he is very receptive to this idea.

I might say this Bank has been one of the most efficient of the international institutions, but I think there is room for improvement, particularly in the representation and other areas, which are a sore point to us, as well as to the committee.

Mr. SHRIVER. Representation?

Mr. HENNESSY. Yes, sir.

LEVERAGE OF ORDINARY CAPITAL

Mr. CONTE. How much is the Bank able to leverage capital contributions in the private money market?

Mr. HENNESSY. In this proposal we have before us, the United States would put in, in cash, $24 million out of $120 million, that is the same proportion other countries are putting in. They are able to lever by 4 to 1. Out of every $5, the subscribing government puts up $1 of cash and $4 worth of guarantee. They go to the private bond markets and borrow $4 for every $1 they get from the subscribing governments. That is the leverage. That is at market rates.

The recipient countries themselves could not go into the borrowing markets as the New York capital market, for example; so they need this way of being able to go through the Bank.

COMPETITIVE POSITION OF THE UNITED STATES

Mr. CONTE. The president of the Bank had us in for a meeting because, he said, of the devaluation, which put the United States in a much better competitive position with respect to Japan. He said he came from Tokyo and paid $8 for a meal and that he couldn't afford to buy many more meals in Tokyo.

Have you done any pricing studies to determine how much the competitive position of the U.S. businesses improved in the area as a result of devaluation?

Mr. HENNESSY. We have gotten an analysis underway. However, we don't have anything final. It takes awhile for the impact of devaluation to be felt. We do see in the April trade figures of the Japanese where their exports surplus was cut in half. It is beginning to bite.

I think we will have some rough ideas of the price impact on competition in the area in due course. We will be able to submit that to you. I don't think it will be in time for the record.

FISCAL YEAR 1973 CONTINUING RESOLUTION

Mr. CONTE. If I remember correctly, didn't the Senate put the $100 million in the foreign-aid bill last year?

Mr. HENNESSY. Yes.

Mr. CONTE. The bill got locked up.

Mr. HENNESSY. What happened was that the appropriations conference never occurred, because the military authorization was never settled by the authorizing conference. The continuing resolution was passed and in that there was no previous special fund funding level, the result was zero.

Mr. PASSMAN. Would the gentleman yield?

This subcommittee, the full committee and the House of Representatives said no funds for ADB, even though the Senate may have put it in, I think that the integrity of this committee holds firm in conference, does it not?

Mr. HENNESSY. I would certainly not want to prejudge the results.

Mr. PASSMAN. I am talking about the record of the past.

Mr. HENNESSY. The experience I think is normally a compromise somewhere between the two.

Mr. PASSMAN. Usually the House brings back more than it leaves over. Is that the record?

Mr. HENNESSY. I would say 50–50.

Mr. PASSMAN. Thank you, Mr. Conte. I got an evasive answer and that is what I expected.

DRAWDOWN OF LETTERS OF CREDIT

Mr. CONTE. You state that, under your present plans, 60 percent of the capital contribution would be in the form of non-interest-bearing letters of credit which would be drawn down as needed for disbursement. Over how long a period would this drawing down take place?

Mr. BEACH. The arrangement is that the replenishment would take place over a 3-year period. The actual drawing down of funds would certainly depend on the rate of disbursements, and that might run over a 5-, 6-, 7-year period. The conditioning phenomenon there is the rate of disbursement.

Mr. CONTE. You asked for $100 million here. This morning you said it would be drawn down $5 million in 1974 and maybe $7 and $8 million per year thereafter?

Mr. HENNESSY. It might take 10 years.

Mr. CONTE. What if the committee just appropriated one-tenth of that?

Mr. HENNESSY. The Bank can't obligate funds it doesn't have. We would have to come back to the committee. Say the Bank made 10 loans without any appropriation; they made loans of $200 million during the year, of which $100 million was to come from the United States even though they didn't have to disburse it right away. They made that commitment. Then you would have to come up with the dough.

It is a question of obligated versus unobligated. Banks can't obligate funds unless they can count on the funds. It is different in the soft-loan window. For the hard loans, they can go into the market and float their bonds. For soft loans they have to depend on contributions, appropriation from us, and other conutries. The strict rule is they cannot make one soft loan until they have that money committed, legally committed. Go through the appropriations process in our country and other countries. Even though it won't be drawn down because of the disbursement lag, maybe for 5 or 6 years or more. They sign a legal contract between the Bank and recipient country. It may be 5 or 6 years or more to build the dam or what have you. The day they sign that loan they have to have the full amount appropriated. Otherwise they might come to the point not being able to meet that commitment.

Mr. CONTE. Is there any other country that has the same type provision that we will have in the soft loan?

Mr. HENNESSY. They, of course, will draw down on a pro rata basis. We have the tying provision which, in this new round, would apply to us and there is a double-duty dollar aspect to it.

Mr. CONTE. We are going to be in a unique position?

Mr. HENNESSY. The period or drawdown, when it comes, would be the same for all countries. That depends on the disbursement rates, and everybody puts in a pro rata share.

ADMINISTRATIVE EXPENSES

Mr. CONTE. This question might have been asked.

Appendix II—the Bank's administrative expenses have shown a rather substantial increase over the past year. Could you explain the reason for this increase?

Mr. BEACH. I think the administrative expenses over the past year have gone up about 10 or 11 percent and the primary cause would be

additional staff. We have in mind bringing on 15 additional professional staff members to help us handle the projected increased load of processed loans.

Mr. CONTE. The administration charge to special operations also showed a decrease. Could you please explain how this deduction works and why it was less in 1972 than it was in 1971.

Mr. BEACH. If my information is correct, Mr. Conte—and I have to check my budget figures—I think that it may be fairly level over the past 2 years. As our charter provides, we more or less pro rate the administrative expenditures for special funds operations which are charged off to special funds. I think we have been holding a fairly level amount there over the last couple of years in special fund operations.

U.S. GOVERNMENT SUPPORT FOR ADB

Mr. CONTE. I might say that it was my first experience going to one of these meetings, and certainly you couldn't term that a junket in the true sense of the word, especially flying out there with that C–135. That was a brutal 17-hour trip to Korea. Then we worked the projects in Korea. From there we went to the Bank meeting, which was a very good meeting. I was impressed with the sincerity of the President of the Bank and with his feelings that you have expressed here today.

The Bank certainly would not succeed unless the United States participates in this. We are creating a tremendous void in Southeast Asia by our pullout from there. I happen to be one, together with Congressman Long, who fought the other Long, over giving and selling sophisticated weapons of war to underdeveloped nations of the world. We have succeeded and gotten an amendment into the bill which became law. I have always been a real stickler on this in the committee. However, I think for every dollar we spend in Southeast Asia for economic programs, if they are sound economic programs, is worth $100 in armaments. I think that the Bank and projects such as this certainly deserve encouragement. I wish we all could get out in the field and look at these projects and see what they are doing.

If I find that you are going to be wasting your funds, I will be one of the first to take the floor against you.

A lot has been said here about the higher-ups in the Government not being behind the Bank. I have a letter of November 28, 1972, written by Henry Kissinger to the President of the Bank.

[The letter follows:]

THE WHITE HOUSE,
Washington, D.C., November 28, 1972.

Hon. TAKESHI WATANABE,
President and Chairman of the Board of Directors, Asian Development Bank, Manila

DEAR MR. PRESIDENT: The President has asked me to thank you for your letter of October 23 concerning the U.S. contribution to the special funds of the Asian Development Bank.

As you know, the President is a strong supporter of the work of the Asian Development Bank. It has played a most important role in the development of the nations of Asia. At a time when development funds are so important to this area, the administration is determined that the United States should provide its share to the Bank's special funds. You can be certain that we will make strong efforts to secure the necessary appropriations in the coming year. I can also assure you that the United States will continue to take a profound interest in the future development of Asia.

The President wanted me to take this opportunity to express his deep appreciation for your outstanding contributions to the Asian Development Bank and to the cause of development in Asia. Your leadership has significantly strengthened the Bank and contributed greatly to a brighter future for many nations. As you leave the Bank, you have the President's warmest good wishes.

Sincerely,

HENRY A. KISSINGER.

I would like to get two letters that you mentioned, the one Marcos wrote and one from Suharto of Indonesia.

I think that it is a very small investment in return for what we might get out of this program in Southeast Asia.

Thank you.

OBLIGATING BANK FUNDS

Mr. PASSMAN. I have a few questions at this point. With your permission, I will ask my questions and recognize Mr. Shriver to ask the Secretary questions.

Did I understand you to say earlier that you have a policy of forward funding? If you have a flood control project and you come up with what you consider a firm estimate as to the cost of it, you estimate it will take 7 years to complete it, you fund it for the entire 7 years?

Mr. HENNESSY. For the special funds, we ask for appropriation for the entire amount. That is correct.

Mr. PASSMAN. Isn't that the same thing? I am not trying to put words in your mouth. I never get an answer, you understand. What you do is allocate funds for the full amount of the project even though it requires 7 years to complete it?

Mr. HENNESSY. We get the appropriation. The funds are not disbursed by the Treasury.

Mr. PASSMAN. Certainly not, but you do have the money on hand before you ever approve the contract?

Mr. HENNESSY. We have the 100 percent appropriation beforehand.

Mr. PASSMAN. Without exception, in every project that we have in America, if it is a flood control project and if it is a 7-to-12-year project, we get a little slice per year and sometimes it takes from 12 to 18 years to finally get the money to complete a project. Isn't that the way we allocate in America?

Mr. HENNESSY. This is the way the majority does.

Mr. PASSMAN. That is all I want, an answer. Thank you very much.

I have a lot of respect for the astute American businessman. Take the young executive who becomes president of a corporation. If we increase certain local taxes, when this young executive arrives at that board of directors meeting on January 5, we will say, unless he has put in the cost of the commodity all of these expenses applying thereto with a profit of some 6 to 8 percent for the stockholders he is usually replaced; isn't he?

Mr. HENNESSY. Yes, sir.

U.S. PRICE COMPETITIVENESS

Mr. PASSMAN. You answered the question. Thank you very much.

We have priced ourselves out of the world market in many fields; haven't we?

Mr. HENNESSY. I think we are reestablished now so——

Mr. PASSMAN. You have. Don't talk about the future now. We have priced ourselves off the world market in many fields?

Mr. HENNESSY. We were out. I think we are now back in the ball game.

Mr. PASSMAN. See if we are. Take stainless steel and many types of iron and many types of sheet metal and barbed wire. The Japanese can go out on foreign markets, buy their ore and take it to Japan, process it, pay the freight and duty and deliver it dockside back in the United States usually about $285 a ton cheaper than an American businessman can buy it in Philadelphia. Is that correct?

Mr. HENNESSY. I am not sure if that is any longer the case. I know ore and steel——

Mr. PASSMAN. I stand on the statement I made. I do a lot of research and I stand on the statement I made. I think it has come nearer being $300 a ton.

Move to the agriculture field. The biggest customer in America is the agricultural industry. They consume more steel than the entire automoible industry. It is the biggest business in America. We are having to sell all of our agriculture commodities with a very large subsidy to meet world prices?

Mr. HENNESSY. I don't think there are any subsidies on U.S. agricultural exports at the present time.

Mr. PASSMAN. You have it on cotton. You moved the subsidy from the exporter and back to the farmer. Of course there is a subsidy going on out. Take rice. You have $22 a ton subsidy on rice; do you not?

Mr. HENNESSY. At the present time?

Mr. PASSMAN. There is on rice. At the present time, yes.

Mr. HENNESSY. Your information may be more current than mine.

Mr. PASSMAN. You ought to know these things. We all have a right to our own views. If I want to go barefoot there is no law against it. You can dress this thing with the clothes of innocence but when you get down to the actual facts what you are asking of this committee is to provide an appropriation of $221 million to be paid out with no provisions for any of it to be returned to the U.S. Treasury. Is that just that simple?

Mr. HENNESSY. That is correct—unless the Bank is dissolved.

Mr. PASSMAN. Thank you very much.

This final question: Are all of your contracts awarded on a competitive basis?

Mr. HENNESSY. Except for the consulting contracts.

Mr. PASSMAN. I am speaking of your production contracts.

Mr. HENNESSY. The project, yes, Hardware.

Mr. PASSMAN. Isn't it also true that we have lost many of these lucrative contracts, if I may apply that term, because we were not competitive?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Thank you very much.

Mr. Miller.

Mr. CONTE. Would you yield?

Mr. Chairman, I don't want to get into a debate with the chairman, but the devaluation that is going into effect defeats his own argument. He wouldn't buy a President's watch in Hong Kong for $1,700

when it costs $1,100 in the United States. It really points up what the devaluation has done.

Mr. PASSMAN. Let me make the record abundantly clear again. The clever Japanese they managed to outmaneuver us to where the purchasing power of the dollar in a brief period lost 35 percent as compared to the value of the yen. I think you said that. Nevertheless, we are still not competitive and we are losing contracts to Switzerland, Germany, Italy, and Japan.

Mr. BEACH. We are now competitive.

Mr. PASSMAN. We are losing contracts, according to your own testimony. You better read your statement here.

Let us go to what you said in your statement:

"Currently the U.S. firm gets 8 percent of the business while Japanese firms receive 56 percent."

I would imagine this is a current statement. It is dated May 22, 1973.

Mr. CONTE. Before devaluation.

Mr. PASSMAN. Have you devalued since May 22?

Mr. BEACH. The data which that comment was based on was data that we had compiled prior to the last devaluation of the dollar.

Mr. PASSMAN. Why didn't you say it in there? You give it as a current fact. You know as well as I do that we are in serious trouble again with the dollar. You read it in the paper 2 days ago and 1 day ago. You read it in the paper this morning. The dollar again is in very serious trouble, and being with the Treasury you ought to know that better than I do.

Mr. HENNESSY. I object to that statement.

Mr. PASSMAN. I don't care what you object to. If some of you people downtown would give some thought to the prestige we have lost abroad by disbursing money that your grandchildren are going to have to either pay back or service, we would be a lot better off.

Mr. LONG. Would you yield?

U.S. PROCUREMENT SHARE

Mr. MILLER. Mr. Chairman, thank you.

My question is along that line. Even though the Bank has adjusted many of its operating procedures, I say we still are faced with problems of considerable concern, most notably the U.S. procurement share of Bank-financed projects.

Right along the line, the chairman mentioned that about 8 percent of the business was returned to the United States, as I recall. Also, of the 86 contracts above $500,000 awarded so far by the Bank borrowers, U.S. firms had bid on only 29 of these. You stated that they lost in many instances to the Japanse, to West Germany, and United Kingdom. My question is this: In how many of the 29 that you listed, 29 bid offers, were U.S. firms actually awarded contracts?

Mr. BEACH. They were awarded contracts in three of those instances.

Mr. MILLER. In other words, there has been a total of 86 contracts awarded and the United States has actually received 3?

Mr. HENNESSY. Above $500,000.

Mr. MILLER. You also stated that the U.S. procurement problem is a broad one relating to lack of competitiveness of the U.S. goods and low sales performance by U.S. firms. This is along the same line of questioning that the chairman pursued. Are you stating that the cost of production within the United States is so high for the items bid upon that we are not able to compete with the other countries?

Mr. BEACH. I think the point we want to make there is that the exchange rates have been out of balance to such a degree that the Japanese have benefited from a highly undervalued exchange rate which has made Japanese products extremely competitive and has allowed the Japanese to underprice us when it comes to competitive bidding. We have now had two revaluations of the yen and two devaluations of the dollar, which have resulted in a 35-percent appreciation of the yen vis-a-vis the dollar. Our feeling is that this——

Mr. LONG. Plus the fact that Japanese prices have been rising more rapidly than ours, right?

Mr. BEACH. Right.

Mr. LONG. What about other countries?

Mr. BEACH. Right. I think the combination of these factors then has certainly reestablished competitiveness in terms of U.S. products vis-a-vis Japanese products.

Mr. HENNESSY. There is a second point there. That is on the firms themselves. I think it is a little of the chicken and the egg. The fact you couldn't compete in the 86 projects, U.S. firms didn't bother to bid on 50 of those. Why? Because it cost a lot of money to bid. If you knew you are beat before you started, you didn't bother to bid. I think at the same time they have lost a lot of the fight to compete because of the fact that they said, "We are not competitive so we will sell at home."

Two things have to happen. We have to have the right exchange rates so the price is right and U.S. firms can compete. And we have to learn how to compete in Asia because the Japanese have dominated that area. Our people have not been out there working at it. If we have $100 million worth of tied funds with the soft funds, which means only our firms can get them, there is an incentive to go back in the area and start bidding. It has to be a U.S. firm that wins.

Mr. MILLER. It is interesting to see that over the 86 projects, and 86 awards, we only received 3. I believe we talked about this before. You would follow not only loaning the money but you follow some of the contracts. Do you have an idea of who does actually receive the contracts and what the amount of the bid would be?

Mr. BEACH. Yes, sir.

Mr. MILLER. I wonder if you can prepare for the record—I don't know if you have right now the information that I am going to ask for—our sales price on such items as large electrical generating equipment, turbines and stream boilers, railroad diesel engines, transformers, and construction cranes. How would this compare with the sales price of other major industrial countries? If we could have that for the record.

Mr. BEACH. We have some of that. As much information as we have been able to obtain we will certainly provide. We have in all instances the main bid price and attempted, I think, with success to determine what the U.S. bid was in all cases.

[The information follows:]

ASIAN DEVELOPMENT BANK PROCUREMENT BIDS OF U.S. FIRMS COMPARED WITH WINNING BIDS

	Winning bid	U.S. firm bid
Power circuit breakers	$1,951,000	$2,299,00
Do	938,000	965,00
Carding machines, spinning frames, etc	637,900	711,78
Oil circuit breakers	702,000	1,042,00
Flyer frames, ring spinning frames, etc	870,000	927,92

Mr. MILLER. I think it would be very good information. If there is one other point I could follow up right there. Are these items in any way subsidized by the governments of other major industrial countries? In other words, to allow this item to be sold on the market for the lowest price? Could you furnish that for the record? I know we are talking about a lot of items and countries. If we could get that for the record I would appreciate it very much. It will help us evaluate where we stand in the world market today.

[The information follows:]

The outstanding case of subsidies being granted by an industrialized country for the products listed by Representative Miller is that of Italian law 639, which provides subsidies for eletcric transmission towers, compressors and part, certain steel products, and many other products. The United States has instituted complaints against these practices in the GATT, and has applied countervailing duties against the subsidized Italian products on six occasions since 1967.

However, in terms of what other industrialized countries are doing for their suppliers in an effort to increase exports to LDC's, certain forms of financing can be an important factor. All industrialized countries, including the United States, provide financial assistance in the form of direct loans and guarantees to assist their suppliers in overseas transactions. We are very competitive in commercial financing (Eximbank); as for concessional financing, we believe that the United States is not put at a competitive disadvantage due to other countries providing such financing.

Mr. PASSMAN. Would you yield?

I think this could be placed in the record. If I am not mistaken, when the dollar was devalued the first time in 1971 we were told this was supposed to correct the situation. Now, we are going to straighten up and fly right is what was said.

Well, we didn't straighten up and fly right. We continued our wild spending at home and abroad. So we came along in February 1973 and devalued again. We said this time we really are going to straighten up and fly right. Instead of straightening up and flying right, we are turning right around and getting the dollar back in the same condition we had it in when we had to devalue in 1971 and 1973.

I am not afraid to place in the record the fact that as hard as Mr. Nixon is working to control inflation, it is about to get out from under control again. I cannot blame this administration. I blame all Americans for the demands they make on the Treasury for deficit financing and continuation of this unbelievably high foreign-aid program.

Thank you for yielding.

Mr. MILLER. If I could, I would add to that just a little.

As I recall the diagram that we have in the budget, as of fiscal year 1974, 5 cents or 5 percent of every dollar will be borrowed. That is anticipated in the budget?

Mr. PASSMAN. That is right. In this great prosperity with peace.

Mr. MILLER. I wanted that to show in the record too.

Thank you.

Mr. HENNESSY. May I address one aspect of procurement which is a statistical problem? I was reminded of this factor by your question on the generator. If a U.S. firm's subsidiary in Taiwan sells a generator for an ADB project or Mitsubishi under license with Westinghouse sells one, it comes out as a Chinese or Japanse export even though we get the repatriated profits or property and royalty back. In the statistics, the way the books are setup, it is the country it is shipped from. The fact is we are about the only country in the world with foreign sources. Our corporations are all around. The procurement figures are deceiving in that sense. What is hidden there is how much of these exports, sales are being made by U.S. subsidiaries abroad. That figure we have not been able to get at. It is something which interests us.

Mr. MILLER. The profit on the manufacturer may be hidden there but the jobs that were not created in this country to develop and manufacture that particular piece of equipment is nevertheless apparent. Most of it is fairly high technology equipment and it requires a lot of skill and a lot of man-hours. That particular area shows that we are not working in this country if another country is doing the manufacturing, no matter who owns that factory in that foreign country.

Thank you.

U.S. TRADE FIGURES

Mr. PASSMAN. Mr. Director, it would appear to me that we should have a careful analysis of this proposition because we do know that in 1972 we had a $6,400 million actual trade deficit, the second one we have had since 1888. Is that correct?

Mr. BEACH. That is correct.

Mr. PASSMAN. I believe that is the first quarter of 1973 we are again experiencing a trade deficit; are we not?

Mr. BEACH. I believe that is correct.

Mr. PASSMAN. It would be far worse than the record indicates if we should remove from the export category foreign aid, would it not? If we removed that as an export our deficit would be far greater because all of the foreign aid we give we still list as an export. We have kept this thing looking somewhat favorable by including all foreign aid disbursements for commodities or exports except military. It is like your unified and administrative budgets. You are covering up something.

Mr. HENNESSY. I don't think we are covering anything up.

Mr. PASSMAN. You don't. You know very well the average American does not understand the unified and administrative budget and why in reality if the public debt goes up, why the budget shows a lower figure. We are in that same field here. The people that put this money up for us to give away, they don't understand all the ramifications of this thing. It is a statement of fact, isn't it, that foreign aid, even though grant, when commodities go out we list that as an export?

Mr. HENNESSY. There are deductions made for Government. You have in the balance-of-payments figures which are produced there as a deduction made for the grant military portion, so it is not included in the figures separately from it.

Mr. PASSMAN. You are repeating what I said. You are not answering my question. Is it not true? You might get Dr. Hannah's testimony. You are not going to give the direct answer. I don't believe you are. When we look at the $6.400 million trade deficit for 1972 to get the true deficit would we not have to add the foreign aid commodities that we have given away and shipped abroad which of necessity we include as an export and yet there is nothing coming back in return; is that correct?

Mr. HENNESSY. On the grant portion there is no credit. No loan.

Mr. PASSMAN. There is nothing coming back?

Mr. HENNESSY. That is right.

Mr. PASSMAN. As it goes out we include that export?

Mr. HENNESSY. Yes. In other words, that has been already adjusted for the military grant portion.

Mr. PASSMAN. The military, I said long ago, that was not included. I am talking about the economic aid.

Mr. HENNESSY. Right.

Mr. PASSMAN. Testimony in the past listed it as an export. If we were——

Mr. HENNESSY. It is not part of that $6.4 billion.

Mr. PASSMAN. Certainly not. If you would take that out it would be even larger. We know that and we have established that over the years that your actual surplus that we have claimed in the past would have switched over to a minus had we subtracted the commodities shipped out without any return under foreign aid. We neglected to say it is a one-way street. It is given away.

Mr. SHRIVER. Wouldn't the same thing be true, Mr. Chairman, of food for peace?

Mr. PASSMAN. Certainly. I am talking about anything we give away. It is listed as an export. It is like I made a donation from my food store a basket of groceries. I ring it up on the cash register for a sale but nothing in the drawer.

Mr. HENNESSY. The same is true in the Export-Import Bank.

Mr. PASSMAN. No, you know very well that we are making and selling commodities and we do get that money back.

Mr. HENNESSY. It is money back. The same with this bank.

Mr. PASSMAN. You are getting completely away from my statement. I said grant aid. You never listen to what I am saying. Grant aid goes out. I am talking about the overall. You are down at the Treasury Department and make these disbursements. I think you might pass by the offices even if you don't have anything to do with it. These payments are made out of the Treasury?

Mr. HENNESSY. They are, indeed.

Mr. PASSMAN. Good. When we finish with ADB do you come back in as a representative of IDA? Is that right?

Mr. HENNESSY. That is correct.

ADB AND U.S. FOREIGN POLICY

Mr. SHRIVER. In Asia. This morning, I inquired as to whether the State Department was going to be here. There is now somebody here from the State Department. I wondered what the official position of the Government was, from foreign policy standpoint, of the importance of this program in terms of American interests.

Mr. WEINTRAUB. Mr. Shriver, there is continuing and regular dis-

cussion, consultation, deliberations among and between the State Department and Treasury before the Treasury comes here, even though we may not be here physically present. We are aware of what is being done, and in point of fact we see some of the statements before they were made. What I am saying is we endorse fully the viewpoint of foreign policy, what Secretary Hennessy stated here.

Mr. CONTE. Why weren't you here?

Mr. WEINTRAUB. This was not deliberate. It was not at all clear whether or not the committee wished the State Department to be here. If the committee wishes that, we will be here in the future.

Mr. HENNESSY. That is as much our fault as anybody's. In the past the questions were handled by letter and indirectly. I think it is better to have direct participation.

Mr. CONTE. We don't get to see the State Department people very often. I wondered if they are still down there.

Mr. SHRIVER. They come in connection with the other programs. Some questions I had this morning I asked of Mr. Hennessy.

Mr. HENNESSY. How they fit in with U.S. interests.

Mr. SHRIVER. Yes.

Mr. WEINTRAUB. We have gone into this deeply in the letter the Secretary of State sent to the committee, in which it was done with some deliberation and some care. It represents a very considered opinion in terms of the foreign policy interests of these operations.

Mr. SHRIVER. Is that in the record?

Mr. WEINTRAUB. Yes, sir. I hope it is.

Mr. SHRIVER. That is all.

Mr. PASSMAN. I believe that the powers in being went out and solicited a letter from all former Secretaries of State and former Secretaries of the Treasury and these letters started rolling in. I believe that was part of your system to get all former secretaries to write key Members of Congress a letter about the importance of these programs?

Mr. HENNESSY. Over the years there has been——

Mr. PASSMAN. I am talking about recently, not over the years. I am talking about very recently, last year.

Mr. HENNESSY. The only letters that I know of that have been written have been from John Hannah, the head of AID, and from the Secretary of State. In past years Secretaries of the Treasury and Secretaries of State who were no longer in office have written in. There has been bipartisan support of this program.

Mr. PASSMAN. You are admitting that I am making a statement of fact that by solicitation or otherwise——

Mr. HENNESSY. Not by solicitation.

Mr. PASSMAN [continuing]. You asked them to write letters. If you don't have them in your file, if you can find the time in your busy life, come by and I will give you a copy of that and other members can come get them.

Mr. HENNESSY. There may have been letters written on this issue. I have not seen them nor solicited——

Mr. PASSMAN. The pressure is on the people. Please don't take this committee for granted. You may think that you count noses and you are going to write this bill, but you may not do it. If you will, give a little thought to some of the more down-to-earth statements that have been made. You clothed it with innocence but admittedly it is still $221 million you are asking in appropriations for, which there is absolutely no return, nothing coming back. It is not pleasant at all to take the

position that I do. But you do spend all of your life thinking up some way to spend this money. Members of the committee may have just a very few days to go into all these ramifications.

Naturally there is nothing personal about it, but some of us must point out in the record that if we don't get our fiscal house in order we are in trouble. You don't deny that?

We gave our President a vote of confidence today. I don't know how the other Members voted, and I don't care. But I was glad to give him a vote of confidence. I am not going to blame the President for these programs, because he requests them only in his name. His knowledge of detail is limited.

Any other questions? The committee stands adjourned.

TUESDAY, MAY 29, 1973.

INTERNATIONAL DEVELOPMENT ASSOCIATION

WITNESSES

JOHN M. HENNESSY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT

HAL F. REYNOLDS, U.S. REPRESENTATIVE AT THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, AND INTERNATIONAL DEVELOPMENT ASSOCIATION

WILLIS C. ARMSTRONG, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS

RICHARD E. BENEDICK, DIRECTOR, OFFICE OF DEVELOPMENT FINANCE, DEPARTMENT OF STATE

E. JAY FINKEL, DIRECTOR, MULTILATERAL INSTITUTIONS PROGRAMS, TREASURY DEPARTMENT

PROGRAM AND FINANCING (in thousands of dollars)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
1. Investment in International Bank for Reconstruction and Development		62,340	
2. Investment in International Development Association	38,020	347,427	347,427
3. Investment in Inter-American Development Bank	104,286	445,464	527,143
4. Investment in Asian Development Bank		8,571	100,000
Total program costs, funded—obligations	142,306	863,802	974,570
Financing:			
Unobligated balance available, start of year:			
Appropriation	−1,398,520	−2,650,274	−2,524,852
Authority to spend public debt receipts	−5,715,000	−5,715,000	−5,715,000
Unobligated balance available, end of year:			
Appropriation	2,650,274	2,524,852	2,663,662
Authority to spend public debt receipts	5,715,000	5,715,000	5,715,000
Budget authority	1,394,060	738,380	1,113,380
Budget authority:			
Appropriation	1,934,810	738,380	1,113,380
Transferred to other accounts	−540,750		
Appropriation (adjusted)	1,394,060	738,380	1,113,380
Relation of obligations to outlays:			
Obligations incurred, net	142,306	863,802	974,570
Obligated balance, start of year	1,820,438	1,687,050	2,130,552
Obligated balance, end of year	−1,687,050	−2,130,552	−2,565,808
Outlays	275,694	420,300	539,314

Mr. PASSMAN. The committee will come to order.

We shall continue our examination this afternoon of another facet of the foreign aid and assistance program. The item we shall consider today is the request of the International Development Association.

We have as witnesses Hon. John M. Hennessy, Assistant Secretary for International Affairs, Treasury Department, and Hon. Hal F. Reynolds, U.S. Representative at the International Bank for Reconstruction and Development, and International Development Association.

I would assume, Mr. Reynolds, that you have a statement that you would like to make to the committee.

Mr. REYNOLDS. I do.

Mr. PASSMAN. You may proceed and we will let you read your statement into the record.

GENERAL STATEMENT

Mr. REYNOLDS. Mr. Chairman, I am pleased to appear before the subcommittee today in support of the administration's appropriations request for $320 million to cover the second installment of the U.S. 3-year subscription to the third replenishment of the International Development Association. This appropriation is necessary for the continuation of IDA's lending program in fiscal year 1974. As members of the subcommittee know, IDA is the affiliate of the World Bank which makes loans on concessional terms to the poorest and least developed countries of the world.

Following the enactment of authorizing legislation by the last Congress, and following appropriation covering the first installment of $320 million, and then only after consulting specially with the Congress, the United States formally agreed to participate in the third replenishment in September of last year. Under that agreement, 22 nations agreed to provide IDA with $2.44 billion over a 3-year period. The U.S. share of this amount is $960 million—39.3 percent of the total.

When U.S. participation in the agreement was announced last September, it was indicated that the annual installments of the U.S. contribution would be paid in fiscal years 1973, 1974, and 1975. This schedule represented a slippage of 1 year in the pay-in schedule contemplated under the original agreement and was in line with the report of May 11, 1972, of the Committee of Conference on Supplemental Appropriations which said—"The managers agree that there is no intention of denying each of the three annual installments of $320 million in the next 3 fiscal years and that the first installment will be provided in the fiscal year beginning July 1, 1972."

Payment of the U.S. first installment was made in November of last year from funds provided under the terms of the fiscal year 1973 continuing resolution for foreign assistance and related items. The other contributing governments have already paid their second installments in accordance with the original time schedule. The request being made today for fiscal 1974 appropriation will enable the United States to pay its second installment as these other nations have already done.

This installment will be made in letter of credit form—to be drawn upon only as IDA requires funds to meet disbursements on its credit commitments to borrowers in the developing countries, and then only

on a pro rata basis with the funds from other countries. No budgetary outlay or balance-of-payments outflow will result in fiscal 1974 from the present request. It is estimated that in fiscal 1974 U.S. suppliers will receive contracts of roughly $130 million to provide goods and services for IDA financed projects, from past authorized loans, on which bidding is now taking place. In addition, about $35 million of the association's administrative expenses will be incurred in the United States.

The overall impact of World Bank operations on the U.S. balance of payments is heavily favorable. During the past 15 months, not a penny has been borrowed in U.S. capital markets, while well over $2 billion has been raised in the markets of other countries. In the present fiscal year the combined impact of IBRD/IDA operations on the U.S. balance of payments is expected to be favorable to the extent of almost $400 million. One of the important factors in achieving this favorable effect has been the IBRD's increased reliance on private capital markets in other countries.

Mr. Chairman, the case for continued U.S. support of IDA is compelling. The association provides assistance exactly where the need for concessionary lending is most acute; that is in the poorest recipient countries. All IDA recipients have a per capita income of less than $375 and most of them are much poorer than that. Many of them would find it very difficult or even impossible to find capital elsewhere to fund development projects.

IDA, like the IMF and the IBRD, operates within the context of the world's market economies. It seeks to advance interdependent interests in a liberal world trading system. Its economic development objectives fit closely with U.S. objectives in the related areas of international trade and international finance. In this connection, we should not ignore the growing dependence by the United States on overseas sources for its raw materials and other essential products. In many cases, IDA financing enables developing countries to export higher quality goods on a more reliable and economic basis. It also encourages private investment in their countries by its support for the development of necessary infrastructure. This factor certainly needs to be included in any assessment of U.S. interest now and in the future.

Let me enumerate, for a moment, Mr. Chairman, some of IDA's specific accomplishments. In fiscal year 1972, it extended credits of $1 billion for 68 projects in 38 countries. At the same time, it also moved into several new areas of lending activity, launching projects in agricultural development, education, and family planning.

To illustrate this last point, more than $300 million was allocated for agricultural projects in 1972, $50 million for education, and $35 million for family planning. The family planning projects, in particular, represent a major effort on IDA's part to combat the population problem in countries where pressures of overcrowding are extremely severe: such as India and Indonesia. An important IBRD population project was also recently approved for Malaysia.

In line with its current 5-year plan, IDA has also greatly increased its activities in regions somewhat overlooked in the past. For example, lending to Africa tripled within the last few years, amounting to nearly $250 million in 1972. IDA has also focused greater attention on the special problems of the "least developed countries," and is now

working to improve efforts in the fields of technical assistance and project preparation.

It also has an important role in planning for programs for reconstruction and development in one of its poorest and newest members, Bangladesh.

Of course, the role IDA plays goes far beyond the figures that I have just mentioned to you. Perhaps the best way to look upon IDA's role is as a catalyst. By its lending activities, it helps to mobilize domestic financial resources within the borrowing countries. It encourages other lenders, both public and private, to participate in projects. The total amount, therefore, of IDA projects is much larger than the funds IDA itself puts into them. The World Bank group plays an important role in coordinating the flow of resources to developing countries through its chairmanship of consortia and consultative groups.

From a managerial viewpoint, Mr. Chairman, the organization and procedures of IDA and the World Bank are under continuous review. This helps to insure that the institutions are efficient and responsive to the needs and desires of both contributing and borrowing member governments. In the last year, the Bank undertook an important reorganization, which unified functional and area responsibilities and established a more coordinated approach to lending operations.

The World Bank Group, including IDA, has a reputation throughout the world as a serious and responsible financial institution, deeply concerned with the problems of development, but at the same time rigorous, demanding, and professional in its operations. Bank and IDA operations are managed responsibly and efficiently. The repayment record is excellent.

IDA money is never a handout. Projects are meticulously prepared and appraised. Except in fields such as education—where short-term benefits are almost impossible to quantify—IDA projects must demonstrate a rate of return of above 10 percent a year. This is exactly the same standard applied to IBRD loans, which bear nearly commercial rates of interest. In my judgment, the record of achievement has been remarkable, notwithstanding the early stages has been remarkable, notwithstanding the early stages of development of the borrowing countries and the staggering problems they face.

After credits are approved, no funds can be released without explicit authorization by IDA management. All projects are closely supervised at every stage, with onsite inspections by IDA staff and regular reports to senior management and to the board of directors. The procurement of goods and services also is closely supervised. Borrowers must conform to Bank guidelines, which are based on international competitive bidding. In most cases, all contract awards must be approved by the Bank, after a review of the procedures used by the borrowing country.

At the urging of member governments—and particularly the United States—the World Bank has established an operations evaluation unit. This unit is completely separate from the operating departments of the Bank. It has presented to the board of directors a series of frank and objective evaluations of Bank operations, ranging from comprehensive assessments of the Bank's role in a given country or sector, to postaudits of individual projects after disbursements have

been completed. The work of this unit promises to be extremely useful to the board of directors and to management for the purpose of strengthening future operations.

The recent GAO report on U.S. participation in the World Bank and IDA offered a number of suggestions for strengthening the role of the United States in these institutions. I believe that considerable progress has already been made in implementing the constructive proposals made by the GAO, notably in the areas of information on projects in preparation, reporting on project supervision, and evaluation activities. We should remember, though, that the role of the board of directors is not to involve itself in technical decisions, but rather to decide policy issues, and to see that approved policies are adhered to and effectively implemented. Since the earliest years of the Bank's history, the United States has played a crucial role in guiding the evolution of the institution, and the dynamic, forward-looking role of the Bank and IDA today reflects in large measure the leadership of the United States.

By supporting this request for funds, you will enable the United States to join with the industrialized countries of the world which have already made their second installment payments under the Replenishment Agreement. And you will affirm the willingness of the American people to continue their support of the IDA development program.

Thank you very much.

JUSTIFICATIONS

Mr. PASSMAN. Thank you for your statement. We will insert the justifications in the record at this point.

[The justification follows:]

Investment in International Development Association

TREASURY DEPARTMENT

FUNDS APPROPRIATED TO THE PRESIDENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
(DOLLARS IN THOUSANDS)

Authorizations	Total, U.S. Participation Authorized	Appropriations	Amount
Public Law 86-565:			
Initial Subscription	320,290	First Supplemental, 1961	73,666
		Foreign Assistance and Related Agencies Appropriation Act, 1962	61,656
		Foreign Aid and Related Agencies Appropriation Act, 1963	61,656
		Foreign Aid and Related Agencies Appropriation Act, 1964	61,656
		Foreign Aid and Related Agencies Appropriation Act, 1965	61,656
	320,290		320,290
Public Law 88-310:			
Increase in Resources	312,000	Foreign Assistance and Related Agencies Appropriation Act, 1966	104,000
		Foreign Assistance and Related Agencies Appropriation Act, 1967	104,000
		Foreign Assistance and Related Agencies Appropriation Act, 1968	104,000
	312,000		312,000
Public Law 91-14:			
Second Replenishment of Resources	480,000	Second Supplemental Appropriation Act, 1969	160,000
		Foreign Assistance and Related Agencies Appropriation Act, 1970	160,000
		Foreign Assistance and Related Agencies Appropriation Act, 1971	160,000
	480,000		480,000
Public Law 92-247:			
Third Replenishment of Resources	960,000	Joint Resolution making Continuing Appropriations, 1973, P.L. 93-9	320,000
		1974:	
		Budget Estimate	320,000
	960,000		

INTERNATIONAL DEVELOPMENT ASSOCIATION

JUSTIFICATION FOR

FY 1974 APPROPRIATION

The International Development Association (IDA) is the concessional lending affiliate of the International Bank for Reconstruction and Development. It was established in 1960 to finance high priority economic development projects in its less developed member countries. It does this by providing long term credits at a nominal service charge. As of December 31, 1972, IDA had 111 member countries and had made cumulative credit commitments of $4,608 million.

U.S. membership in the International Development Association was authorized by Public Law 86-565, approved June 30, 1960. The United States joined the Association in August 1960 and, following appropriation of initial funds (PL 86-651), paid the first tranche of its original subscription in November 1960. The remaining portions of the original U.S. subscription were paid in over a four year period ending in fiscal year 1965. This original subscription of the United States amounted to $320,290,000.

Agreements have also been made among advanced member countries to replenish the resources of IDA on three occasions. The United States has participated in all of the replenishments. The most recent of them was negotiated during 1970 and provided for an increase of $2.4 billion. The U.S. share was $960 million and was to be provided in equal annual installments of $320 million over a three year period beginning in fiscal year 1972. Authorization of these amounts was approved on March 10, 1972 (Public Law 92-247). Appropriations of the first installment was not, however, approved in FY 1972. In deferring action on the Administration's request for a FY 1972 supplemental appropriation, the Conference Committee noted:

> "The Managers agree there is no intention of denying each of the three annual installments of $320,000,000 in the next three fiscal years and that the first installment will be provided in the fiscal year beginning July 1, 1972."

This first installment was provided in FY 1973 under the terms of a Continuing Resolution on Foreign Assistance passed by the Congress on October 15, 1972.

What is now being requested is the second installment of $320 million. The original payment date of November 8, 1972 has been extended for the United States, although other Part I countries have adhered to the agreed schedule and are, in effect, one year ahead of the United States in making their payments.

The U.S. contribution will be made available in the form of non-interest-bearing letters of credit drawn down as needed to meet disbursements on committed credits. No budgetary expenditures will result from this appropriation request in FY 1974. Prompt action is needed, however, so the Association can continue to commit funds for its high priority projects.

INTERNATIONAL DEVELOPMENT ASSOCIATION

Memorandum Relating to the Financial Statements

DECEMBER 31, 1972

Attached hereto are the following statements of the Association:

Statement of Condition	Appendix A
Statement of Income and Expenses	Appendix B
Statement of Changes in Resources Available for Commitment	Appendix C
Summary Statement of Development Credits	Appendix D
Notes to Financial Statements	Appendix E

Summary data on certain aspects of the Association's activities are set forth below:

(Expressed in Millions of United States Dollars)

1. DEVELOPMENT CREDIT AGREEMENTS SIGNED

July 1 to September 30, 1972				$277.00
October 1 to December 31, 1972:				
337	PAK	*Pakistan*	$50.00	
338	MOR	*Morocco*	10.00	
339	BD	*Bangladesh*	25.00	
340	BD	*Bangladesh*	13.00	
341	BD	*Bangladesh*	14.00	
342	IN	*India*	12.00	
343	BD	*Bangladesh*	7.30	
344	KE	*Kenya*	6.00	
345	BD	*Bangladesh*	50.00	
346	BO	*Bolivia*	8.00	
347	PA	*Paraguay*	5.10	
S-12	YDR	*Yemen, People's Democratic Republic of*	.56	
S-13	UAR	*Egypt, Arab Republic of*	.18	201.14
Development Credit Agreements Signed in Fiscal Year to Date				$478.14

2. DEVELOPMENT CREDITS APPROVED BUT NOT SIGNED

December 31, 1972		
Ghana	$15.6	
Malagasy Republic	15.0	
Papua New Guinea	5.0	
Philippines	12.7	
Senegal	4.5	
Development Credits Approved but Not Signed		$52.8

3. DEVELOPMENT CREDIT DISBURSEMENTS

	Quarter Ended	*Six Months Ended*
	December 31, 1972	
Disbursements (Total Disbursed $2,598.2)	$116.9	$173.1

4. CUMULATIVE DEVELOPMENT CREDIT DATA FROM BEGINNING OF OPERATIONS TO DECEMBER 31, 1972

Development Credits Approved	$4,608.1	
Exchange Adjustments, Cancellations and Refundings	12.7	$4,620.8
Repayments		3.7
Net Development Credits Approved		$4,617.1
Agreed to be Sold		.1
Development Credits Not Yet Effective		462.7
Net Development Credits Effective		$4,154.3
Undisbursed Balances:		
Development Credits Effective		$1,559.8
Portion of Effective Development Credit Agreed to be Sold		.1
Development Credits Not Yet Effective		462.7
		$2,022.6

Controller's Department
January 25, 1973

APPENDIX A

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Condition

DECEMBER 31, 1972 AND DECEMBER 31, 1971

Expressed in United States Currency (IN THOUSANDS)—*See Notes to Financial Statements, Appendix E*

ASSETS

		1972	1971
DUE FROM BANKS AND OTHER DEPOSITORIES			
Unrestricted currencies	$ 138,557		$ 29,170
Currencies subject to restrictions—*Note B*	52,468		56,299
		$ 191,025	85,469
INVESTMENTS			
Obligations of governments (At cost or amortized cost; face amount $360,325 - 1972; $275,836 - 1971)	$ 356,813		275,724
Time deposits	25,951		28,009
Accrued interest	3,600		2,805
		386,364	306,538
RECEIVABLE ON ACCOUNT OF SUBSCRIPTIONS AND SUPPLEMENTARY RESOURCES			
Non-negotiable, non-interest-bearing, demand obligations			
Unrestricted	$1,583,102		963,843
Subject to restrictions—*Note B*	179,309		264,212
Amounts due on additional subscriptions and supplementary resources	349,633		-
Amounts required to maintain value of currency holdings - *Note C*	7,268		84,180
		2,119,312	1,282,235
RECEIVABLE FROM INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT—*Note D*		389,238	320,277
RECEIVABLE FROM NON-MEMBER—*Note E*		3,648	4,480
RECEIVABLE FROM SWISS CONFEDERATION—*Note F*		13,520	-
DEVELOPMENT CREDITS (*See Appendix D*)—*Note G*	$4,617,043		3,660,095
Less—Development credits approved but not yet effective	462,735		284,000
Effective development credits (Including undisbursed balance $3,559,385 - 1972; $3,265,729 - 1971)		4,154,308	3,376,095
ACCRUED SERVICE CHARGES ON DEVELOPMENT CREDITS—*Note G*		6,280	4,751
RECEIVABLE FROM PURCHASER ON ACCOUNT OF EFFECTIVE DEVELOPMENT CREDIT AGREED TO BE SOLD (Undisbursed balance $84 - 1972; $61 - 1971)		100	-
OTHER ASSETS—*Note C*		4,804	8,032
TOTAL		$7,266,599	$5,287,877

LIABILITIES, SUBSCRIPTIONS, SUPPLEMENTARY RESOURCES, TRANSFERS AND ACCUMULATED NET INCOME

		1972	1971
LIABILITIES			
Amounts required to maintain value of currency holdings—*Note C*		$ 2,586	$ -
Accounts payable		12	7
Undisbursed balance of effective development credits (*See Appendix D*)			
Held by Association	$1,559,785		1,265,729
Agreed to be sold	84		-
		1,559,869	1,265,729
Loans from Swiss Confederation—*Note F*		48,382	32,732
SUBSCRIPTIONS AND SUPPLEMENTARY RESOURCES—*Note H*			
Subscriptions ($1,061,068 - United States dollars of 1960)	$1,152,016		1,016,462
Supplementary Resources ($4,281,944 - United States dollars of 1960)	4,648,951		3,353,707
	$5,800,967		$3,370,169
Less—Portion for which payment is not yet due	922,285		7,200
		4,878,682	3,362,969
Payments on account of pending subscriptions		20	915
TRANSFERS FROM INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT—*Note D*		705,000	595,000
CONTRIBUTION FROM NON-MEMBER—*Note E*		6,080	6,600
ACCUMULATED NET INCOME			
At beginning of fiscal year - July 1	$ 64,246		63,708
Net translation adjustments as a result of currency revaluations	14		-
	$ 64,260		63,708
Fiscal Year to date (*See Appendix B*)	1,708		(783)
		65,968	62,925

APPENDIX

B

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Income and Expenses

FOR THE SIX MONTHS ENDED DECEMBER 31, 1972 AND DECEMBER 31, 1971

Expressed in United States Currency (IN THOUSANDS)-*See Notes to Financial Statements, Appendix E*

	July 1 - December 31	
	1972	*1971*
INCOME		
Income from investments	$ 6,682	*$ 5,896*
Income from development credits	9,339	*7,699*
Exchange adjustments	1,127	*166*
Total income	$17,148	*$13,761*
EXPENSES		
Management Fee paid to International Bank for Reconstruction and Development	$15,440	*$14,544*
NET INCOME (LOSS)	$ 1,708	*$ (783)*

APPENDIX C

INTERNATIONAL DEVELOPMENT ASSOCIATION

Statement of Changes in Resources Available for Commitment

FOR THE SIX MONTHS ENDED DECEMBER 31, 1972 AND DECEMBER 31, 1971

Expressed in United States Currency (IN THOUSANDS)–*See Notes to Financial Statements, Appendix E*

	July 1 - December 31	
	1972	*1971*
SOURCE OF RESOURCES		
From Members:		
Subscriptions, unrestricted	$ 39,453	$ 21
Supplementary resources	1,992,370	355,156
Transfer from International Bank for Reconstruction and Development–*Note D*	107,000	110,000
Loan from Swiss Confederation	34,559	-
Net Income (Loss)	1,708	(783)
Repayments of development credits	1,313	851
Increase in resources as a result of currency revaluations	12	-
Total Source of Resources	$ 2,176,415	$ 465,345
APPLICATION OF RESOURCES		
Development credit agreements	$ 521,735	$ 117,010
Cancellations and refundings	(102,746)	(5,056)
Total Application of Resources	$ 418,989	$ 111,994
NET INCREASE IN RESOURCES AVAILABLE FOR COMMITMENT	$ 1,757,426	$ 353,251
RESOURCES AVAILABLE FOR COMMITMENT		
Beginning of Period	2,565	3,468
End of Period	$ 1,759,991	$ 356,719
COMPOSITION OF RESOURCES AVAILABLE FOR COMMITMENT		
Unrestricted currencies	$ 138,557	$ 29,170
Investments	386,364	306,538
Unrestricted receivables on account of subscriptions and supplementary resources	1,932,918	1,018,023
Receivable from International Bank for Reconstruction and Development	386,238	320,277
Receivable from Swiss Confederation	11,520	-
Receivable from non-member, accrued service charges and other assets	11,664	16,348
Subscriptions and supplementary resources not yet due	917,848	7,200
Less - Undisbursed development credits (including development credits not yet effective) and accounts payable	(2,025,118)	(1,340,837)
	$ 1,759,991	$ 356,719

APPENDIX D

INTERNATIONAL DEVELOPMENT ASSOCIATION

Summary Statement of Development Credits

DECEMBER 31, 1972 AND DECEMBER 31, 1971

Expressed in United States Currency (IN THOUSANDS)-*See Notes to Financial Statements, Appendix E*

Members in whose territories development credits have been made (1)	*Effective development credits held by Association*			*Development credits approved but not yet effective (4)*
	Disbursed portion (2)	*Undisbursed portion (3)*	*Total*	
Afghanistan	$ 5,221	$ 10,025	$ 15,246	$ -
Australia:				
Papua New Guinea	9,210	2,448	11,658	14,200
Bangladesh	-	-	-	109,300
Bolivia	25,597	8,916	34,513	8,000
Botswana	6,450	4,223	10,673	1,650
Burundi	2,295	1,125	3,420	-
Cameroon	18,358	16,492	34,850	9,000
Central African Republic	6,052	2,739	8,791	3,900
Chad	2,644	7,833	10,477	-
Chile	20,430	-	20,430	-
China	14,087	-	14,087	-
Colombia	20,883	-	20,883	-
Congo, People's Republic of	2,607	12,775	15,382	-
Costa Rica	4,868	-	4,868	-
Dahomey	4,975	3,467	8,442	6,100
Dominican Republic	286	8,715	9,001	-
Ecuador	11,798	20,320	32,118	-
Egypt, Arab Republic of	1,182	54,843	56,025	175
El Salvador	13,477	965	14,442	-
Ethiopia	33,204	35,316	68,520	17,000
Gambia, The	681	1,432	2,113	1,300
Ghana	21,717	11,184	32,901	15,600
Guyana	764	8,787	9,551	-
Haiti	378	-	378	-
Honduras	22,175	2,588	24,763	-
India	1,370,939	597,119	1,968,058	63,200
Indonesia	67,517	217,936	285,453	51,000
Jordan	12,695	9,591	22,286	-
Kenya	43,831	41,957	85,788	6,000
Korea	47,079	32,840	79,919	10,500
Lesotho	4,451	-	4,451	-
Liberia	-	8,400	8,400	-
Malagasy Republic	15,471	14,715	30,186	30,300
Malawi	34,235	14,662	48,897	-
Mali	15,438	9,328	24,766	3,600
Mauritania	9,619	4,970	14,589	-
Mauritius	1,383	7,367	8,750	-
Morocco	15,442	12,157	27,599	10,000
Nepal	399	8,027	8,426	-
Nicaragua	3,236	-	3,236	-
Niger	9,621	4,876	14,497	-
Nigeria	24,403	12,631	37,034	-
Pakistan	365,527	107,460	472,987	-
Paraguay	22,975	106	23,081	5,100
Philippines	129	9,871	10,000	12,200
Rwanda	1,191	8,134	9,325	3,000
Senegal	15,768	12,550	28,318	12,500
Sierra Leone	899	9,942	10,841	-
Somalia	10,555	11,993	22,548	-
Sri Lanka	8,148	11,949	20,097	-
Sudan	13,543	8,189	21,732	18,250
Swaziland	3,010	-	3,010	-
Syrian Arab Republic	7,688	1,390	9,078	13,800
Tanzania	49,134	32,572	81,706	-
Togo	3,352	585	3,937	-
Tunisia	28,164	22,407	50,571	10,000
Turkey	99,385	38,101	137,486	18,300
Uganda	29,490	16,614	46,104	-
Upper Volta	1,593	10,435	12,028	-
Yemen Arab Republic	-	-	-	7,700
Yemen, People's Democratic Republic of	477	1,157	1,634	560
Zaire	8,397	45,561	53,958	-
Totals December 31, 1972	$2,594,523	$1,559,785	$4,154,308	$462,735
Totals December 31, 1971	*$2,110,346*	*$1,265,728*	*$3,376,095*	*$184,000*

(1) All development credits have been made to member governments or to the government of a territory of a member.

(2) The disbursed portions at December 31, 1972 include adjustments to reflect the devaluation of the United States dollar on May 8, 1972.

(3) Of the undisbursed balance at December 31, 1972 the Association has entered into irrevocable commitments to disburse $3,087,000 *($3,145,000 - 1971)*.

(4) As at December 31, 1972, agreements in the amount of $52,800,000 providing for these development credits have been approved but not signed. In addition, agreements for development credits in the amount of $409,935,000 have been signed, but the development credits do not become effective and disbursements thereunder do not start until the borrower takes certain action and furnishes certain documents to the Association.

APPENDIX E

INTERNATIONAL DEVELOPMENT ASSOCIATION
Notes to Financial Statements

DECEMBER 31, 1972 AND DECEMBER 31, 1971

NOTE A - Translation of Currencies

The Association's accounts are expressed in current United States dollar equivalents translated as described below:

At December 31, 1972, currencies were expressed in United States dollars: (i) As to 64 members, at the par values announced by the International Monetary Fund (IMF); these include Canada, the United Kingdom and a number of other members which have advised the IMF that the market rates for their currencies temporarily will not be confined within announced limits, (ii) as to 16 members, at the central rates communicated to the IMF; these include India which has also advised the IMF that the market rate of its currency temporarily will not be confined within announced limits, and (iii) as to the remaining 31 members, at the rates used by such members in making payments of subscriptions to the Association adjusted to reflect the devaluation of the United States dollar. Swiss francs were translated into United States dollars at the rate of SwF 3.76172 to 1 United States dollar.

At December 31, 1971, currencies were expressed in United States dollars: (i) As to 76 members, at the par values as specified in the "Schedule of Par Values" published by the IMF, and (ii) as to the remaining 31 members, at the rates used by such members in making payments of subscriptions to the Association. Swiss francs were translated into United States dollars at the rate of SwF 4.08415 to 1 United States dollar.

The effect of the United States dollar devaluation of May 1972 and other exchange rate changes since December 1971 has been to increase in terms of United States dollars the Association's assets, liabilities, subscriptions, supplementary resources and accumulated net income as at December 31, 1972 as compared to December 31, 1971.

No representation is made that any currency held by the Association is convertible into any other currency at any rate or rates.

NOTE B - Restricted Currencies

Article IV, Section 1(a) of the Articles of Agreement of the Association provides that the currency of any Part II member, whether or not freely convertible, received by the Association in payment of the ninety percent portion of its initial subscription may be used by the Association for administrative expenses incurred by the Association in the territories of such members and, insofar as consistent with sound monetary policies, in payment for goods and services produced in the territories of such member and required for projects financed by the Association and located in such territories; and in addition when and to the extent justified by the economic and financial situation of the member concerned as determined by agreement between the member and the Association, such currency shall be freely convertible or otherwise usable for projects financed by the Association and located outside the territories of the member. The amounts of $52,468,000 *($56,299,000 - 1971)* under the heading "Due from Banks and Other Depositories" and $186,394,000 *($186,212,000 - 1971)* included under the heading "Receivable on Account of Subscriptions and Supplementary Resources" are subject to such restrictions.

NOTE C - Maintenance of Value

Article IV, Section 2 provides for the maintenance as of the time of subscription of the value of the Association's holdings of the currency (or substituted notes) representing ninety percent of each member's initial subscription, to the extent that such currency has not been initially disbursed or exchanged for the currency of another member. This Section requires the member to make additional payments to the Association in the event of a reduction in the par value of its currency or if the foreign exchange value of its currency has, in the opinion of the Association, depreciated to a significant degree and requires the Association to reimburse the member in the event of an increase in the par value of its currency or a significant appreciation of its currency in its territories.

The total amounts of supplementary resources of the Association and additional subscriptions under the third replenishment have, by agreement, the same respective rights and obligations as to maintenance of value as are set forth in Article IV, Section 2.

Certain members have communicated central rates to the International Monetary Fund (IMF). By action of the Executive Directors of the Association it has been determined that such central rates represent the *de facto* value of such currencies for maintenance of value purposes. The equivalent of $7,268,000 is due from 31 members *(nil - 1971)* and the equivalent of $2,586,000 is payable to one member *(nil - 1971)* in order to maintain the value of the Association's currency holdings (or substituted Notes) as required under Article IV, Section 2. Certain members have notified the IMF of their intention to maintain the parity of their currencies in terms of the United States dollar but have not officially notified the IMF of a change in par values and other members have notified it that for the time being the market rates for their currencies will not necessarily be confined within announced limits. In these cases provisional amounts receivable by the Association ($723,000) have been included in "Other Assets." If and when new par values are established and when the applicable members notify the IMF they will maintain their currencies within announced limits, the maintenance of value obligations will become effective as described above.

(Continued)

APPENDIX E

Continued

INTERNATIONAL DEVELOPMENT ASSOCIATION

Notes to Financial Statements (continued)

DECEMBER 31, 1972 AND DECEMBER 31, 1971

NOTE D - Transfers from International Bank for Reconstruction and Development

The International Bank for Reconstruction and Development has authorized transfers by way of grants to the Association totaling $705,000,000 *($595,000,000 - 1971)* from the net income of the Bank for the fiscal years ended June 30, 1964 through 1972. Of this amount, $315,762,000 had been received as of December 31, 1972 *($274,723,000 - 1971)*. The resolution of the Board of Governors regarding the transfer of $110,000,000 by way of grant out of fiscal year 1972 net income provides that up to the equivalent of $3,000,000 may be used by the Association for grants for agricultural research.

NOTE E - Contribution from Non-Member

New Zealand, which is not a member of the Association, has made a voluntary contribution of $NZ 5 million (US equivalent $6,080,000) to the Association, to be paid in five equal instalments. The first two instalments have been received and the remaining three will be paid in each of the years 1973 through 1975.

NOTE F - Loans from Swiss Confederation

The Association has entered into agreements to borrow a total of SwF 182 million (approximately US equivalent $48,382,000) from the Swiss Confederation. The first loan for SwF 52 million, which was made in fiscal year 1967, has been received in full. The second loan for SwF 130 million was signed in November 1972, and SwF 86.7 million has been received; the balance will be received in November 1973. The loans carry no interest and are each repayable in forty annual instalments commencing July 1, 1979 in the case of the first loan and November 8, 1983 in the case of the second loan. The first ten instalments in each instance will be at 1% of the respective principal amounts and the remaining thirty instalments will be at 3% of such principal amounts.

NOTE G - Development Credits

The principal amounts disbursed and outstanding on development credits and the accrued service charges are expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960 adjusted to reflect the devaluation of the United States dollar on May 8, 1972 and the equivalent is payable by the borrowers in currencies which the Association determines to be freely convertible or freely exchangeable by the Association for currencies of other members of the Association, except that such amount would be reduced if (a) there is a uniform proportionate reduction in the par values of the currencies of all members of the International Monetary Fund or (b) the Association so decides because of a substantial reduction in the value of one or more major currencies of members. The foregoing does not apply to a credit of $9,000,000 which is expressed and is repayable in legal tender dollars.

NOTE H - Subscriptions and Supplementary Resources

The Association's Articles of Agreement and subsequent replenishment resolutions define subscriptions and supplementary resources in terms of United States dollars of the weight and fineness in effect on January 1, 1960. In these financial statements all subscriptions and supplementary resources are expressed in current United States dollars unless otherwise indicated.

GENERAL - Third Replenishment of Resources

The third replenishment of the resources of the Association became effective on September 22, 1972. As at December 31,1972, 18 Part I countries and three Part II countries with contributions and subscriptions aggregating $2,510,541,519 equivalent had notified the Association that they would participate in the replenishment. In addition, 57 Part II countries had notified the Association that they would take up additional subscriptions under the third replenishment aggregating $8,729,716 equivalent. As at December 31, 1972, an amount of $1,271,918,000 equivalent was receivable, of which $349,633,000, equivalent was past due and the balance, $922,285,000 equivalent, which was not yet due, is receivable as follows: $57,334,000 equivalent in January and February 1973 and $864,951,000 equivalent in November 8, 1973.

Mr. PASSMAN. We will have certain questions, of course, to ask about this appropriation. I understand you are requesting $320 million for fiscal 1974.

Mr. REYNOLDS. Yes, sir.

Mr. PASSMAN. If I understand the terms of the IDA, they are 50 years, no interest, three-quarters of 1 percent service charge with a 10-year grace period.

Mr. REYNOLDS. Those are the lending terms on the credits; yes, sir.

Mr. PASSMAN. When they start repaying they only pay 1 percent a year for 10 years?

Mr. REYNOLDS. For the first 10 years, that is right.

Mr. PASSMAN. After this $320 million has been out for a total of 20 years, if they pay according to contract they will only pay 1 percent on principal and no interest, just the service charge; is that correct?

Mr. REYNOLDS. Well, the first 10 years they would have paid 10 percent, 1 percent a year.

Mr. PASSMAN. The first 10 year is free. By the end of 20 years there has only been paid back 10 percent.

Mr. REYNOLDS. That is right.

Mr. PASSMAN. And then there is 3 percent the remaining 30 but no interest and three-quarters of 1 per cent service charge. Under this agreement there is nothing in the charter that would direct any of this money back into the U.S. Treasury?

Mr. REYNOLDS. The repayments are returned to IDA, that is correct.

Mr. PASSMAN. That is not the U.S. Treasury, so my question I may ask over to make a good record. There is no provision whereby this money can be returned to the U.S. Treasury under the present charter?

Mr. REYNOLDS. Only upon dissolution of the institution.

Mr. PASSMAN. Under the present charter there is no plan proposed to dissolve the institution?

Mr. REYNOLDS. No plans, but the charter contemplates the possibility of ultimate dissolution.

Mr. PASSMAN. But there is nothing in the foreseeable future that could bring a dollar of this money back into the U.S. Treasury?

Mr. REYNOLDS. That is right.

Mr. PASSMAN. I think that is also true, as we established earlier, with all the following institutions; the Inter-American Development Bank, the Asian Development Bank, and the International Development Association.

Is that correct?

Mr. HENNESSY. That is correct. These would only flow back if they were dissolved.

Mr. PASSMAN. And you said there is no present plan to dissolve the institutions.

It would appear this is a one-way street, whereas the money goes out and there is no provision for any of it to be returned to the United States. The funds go into an international organization and the committee never knows to what country, for what purpose, in what amount, and on what date the funds are disbursed until after the fact, if then, certainly not before it.

As I look at the request under these three organizations, the budget has requested $1,234,380,000; is that correct? That is the amount of the one-street fund requests?

INFORMATION ON PROJECTS IN PIPELINE

Mr. HENNESSY. Might I correct something for the record, sir.

Mr. PASSMAN. Certainly.

Mr. HENNESSY. With regard to the prior notice of project proposals we are now submitting to your committee and to committee members some seven volumes of information on the banks and their activities, and in particular these lay out before you the projects which will be coming up for approval before they are actually approved.

Mr. PASSMAN. This is the first year that any such information has been submitted to the committee.

Mr. HENNESSY. Detailed information.

Mr. PASSMAN. I guess that is because this committee has raised so much fuss over a period of years about it that you people decided that you would start giving this advance information. But with respect to these several volumes, you have sent down, you know very well no committee member could possibly wade through all those things in any 2 or 3 weeks.

They weigh several pounds and I guess there are millions of words in there. But in addition to that may I add that you don't know that these will be the projects that will be financed out of IDA, do you?

Mr. HENNESSY. Not until they are actually approved at the Board.

Mr. PASSMAN. That is what I know and you know that I know that.

Mr. HENNESSY. There is an important distinction.

Mr. PASSMAN. So that is a way to try to satisfy the committee. You haven't satisfied me because these projects are not individually considered. You don't establish a benefit-cost ratio, then subsequently fund them accordingly. It could be years before these projects actually are funded. Isn't that correct?

Mr. HENNESSY. They would normally be in the next 2 years. In every case there are benefit-cost ratios calculated in that process.

Mr. PASSMAN. Neither could this committee select the projects that are going to be financed and put them in the record and say that these will be the specific projects, could it?

Mr. HENNESSY. No; that is correct.

Mr. PASSMAN. You have answered the question, and I know this is as phony as a $3 bill because we will only know it after the fact and not before it.

Mr. HENNESSY. Might I introduce Assistant Secretary Armstrong from the State Department, and Director Benedick from the State Department. Some questions have come up which they might wish to answer.

Mr. PASSMAN. Glad to see you, gentlemen. Glad you could be here.

I yield to Mr. Shriver.

U.S. SHARE OF TOTAL CONTRIBUTIONS

Mr. SHRIVER. Thank you, Mr. Chairman.

You quoted in your statement a while ago the commitment made by this subcommittee as House conferees on the supplemental appropriations bill last May that Congress would honor this 3-year supplement in three consecutive installments beginning in fiscal 1973.

Have all of the other part I countries already paid in or committed their second installment?

Mr. REYNOLDS. All but one.

Mr. SHRIVER. Which one?

Mr. REYNOLDS. Italy has not yet formally committed its participation.

Mr. SHRIVER. You say no budgetary expenditures will result from this appropriation request in fiscal year 1974. What is the timetable for the budget expenditures of these funds?

Mr. REYNOLDS. This particular installment wouldn't be drawn upon until well into fiscal 1975 and it would then be 2 years at least, maybe 3, before it would be fully drawn upon.

Mr. SHRIVER. The U.S. share of the current replenishment is, I believe, 39.3 percent.

Mr. REYNOLDS. That is correct.

Mr. SHRIVER. What is our voting strength in the World Bank Group?

Mr. REYNOLDS. Our voting strength in IDA is approximately 26 percent. It is based on the subscriptions made to the institution by all of the member countries, both the part I countries, that is the developed countries, and the part II or developing countries.

The 39.3 percent contribution share is our share in the replenishment contributions made simply by the part I countries.

Mr. SHRIVER. Is ours such a large percentage of that, 39.3 percent of the total?

Mr. REYNOLDS Well, this represents some reduction from the initial share; I think we started out at about 43 percent. As I say, we are talking here just of the contributions of the developed member countries. I don't think this is in any sense disproportionate to the contributions of others.

If you look at the economic capacities of the countries, I think you can only judge the contributions in relation to the economic strength, the income, and productivity of the economies involved. The U.S. share of national income of the developed countries is higher than 40 percent.

Mr. HENNESSY. If I could add a point on that, although the U.S. share is 39.3 percent our share of GNP of the same group of countries even after the second devaluation is 43 percent. We have gone on record as saying that we think that is too high, that if we had to negotiate IDA today we would have a smaller share because of our balance of payments and other difficulties which concern this committee.

We are in the process of international discussions and negotiations on the next round of IDA replenishment which would start being paid 2 years from now, and in my original statement I did refer to that. I said we have made it quite clear that the United States is going to have to have a major reduction in that 39 percent share to somewhere between 30 and 33 percent. Although there is a lag from the time you originally negotiate until the time you can renegotiate, we have gone on record before this committee and others in saying that in the future we will negotiate a major reduction in the current share.

Other countries now have come to realize that is a necessity.

Mr. SHRIVER. Is that determined by negotiation between countries?

Mr. HENNESSY. Yes, because for us to go down someone has to come up and no one wants to, but with regard to the Japanese whose share has been around 6 percent, it is quite clear now that their share should

go up and I think they have reconciled themselves and made some public statement to that effect.

The United Kingdom share may be a little too high and has to come down. Part of the problem in international negotiations is for us to come down the others have to go up. As the economies strengthen in different countries, the shares they put in should reflect that increased strength. We think the Germans are stronger and the Japanese are stronger and now is the time for them to pick up a larger share.

PROCUREMENT

Mr. SHRIVER. You mention that U.S. suppliers will receive contracts of roughly $130 million for IDA financed projects in fiscal 1974. This does not compare too well with the requested appropriations of $320 million.

Roughly what percent of IDA contracts are received by U.S. suppliers?

Mr. REYNOLDS. I think at the moment, Mr. Shriver, it is about 20 percent, perhaps a little less, 18, 19 percent. I would have to say the $130 million figure is not out of the $320 million. It ought to be compared, I think, with the actual cash drawn against the United States in fiscal 1974 which would be considerably less than $320 million.

I think the difference between the expected cash drawing on the United States by IDA and the procurement by IDA and the United States is something in the order of $30 million.

Mr. SHRIVER. Mr. Chairman, I have used my 5 minutes.

HISTORY OF CONTRIBUTIONS

Mr. PASSMAN. Before yielding to Mr. Long and with his tolerance, I think we should insert for the record at this point information that I requested earlier but I cut myself off by changing the rules to recognize other members before getting back into it.

A lot of us believe that your multilateral organizations were created mainly to bypass the Committee on Appropriations because we have established many, many times before that we know after the fact and not before the fact the specific projects that you are going to fund.

We don't know the amount, the country, or what project will be funded beforehand and there is no repayment back to the U.S. Treasury. But we notice when IDA came into being that you were very cautious only to ask for $61 million a year and I believe that was for 4 years, is that correct?

Mr. REYNOLDS. Five years, I believe.

Mr. PASSMAN. The record shows 4. If it is 5, you better correct your justifications.

Mr. HENNESSY. They asked for 5. There were 4 at $61 million, after an initial $3 million.

Mr. REYNOLDS. It is a 5-year period. We paid in in four equal installments following a slightly larger one.

Mr. PASSMAN. Well, your record shows four. It is $61 million. Then in the next request you moved it up. The bilateral program was still remaining high at the same time you were bringing into being new multilateral organizations but then you moved the requests for IDA

up to $104 million for 3 years, subsequently you moved it to $160 million for 3 years, and now you are up to $320 million for 3 years.

Is that correct?

Mr. HENNESSY. Yes.

Mr. PASSMAN. So it is over five times the amount annually that you started off with originally, is that correct?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Now, finally, as I mentioned earlier, in these multilateral organizations where there are no present plans for any U.S. funds to be returned to the U.S. Treasury, you are asking for $1,234,380,000.

Then if you compare that with the Development Loan Fund—you are familiar with that, aren't you?

Mr. HENNESSY. Yes.

Mr. PASSMAN. That is where we make a nation a loan and the money is paid back to the U.S. Treasury, and I believe that repayment record shows that less than 1 percent of these loans are past due. If you compare the developent loan request where the money is paid back directly to the United States to the requests for the international financial institutions where the United States receives no repayment, the international requests are about four times the bilateral request.

Now I yield to Dr. Long.

Mr. LONG. Treasury and so many academics are always bringing up the point of what a low percentage of our gross national product goes into foreign aid and into help for international institutions, compared with other countries.

Why don't those comparisons take into account our expenditures on national defense as a percentage of gross national product? Do you, when you present your aid requests to Congress, make it clear that we are already putting out pretty close to 10 percent of our GNP, and that these other countries are paying very, very small sums in relation to that?

Why shouldn't our defense budget and related budgets be considered along with our contributions to AID and the multilateral institutions?

Mr. HENNESSY. That is precisely the point we use in international discussions because we don't think that the GNP figure alone faithfully reflects the burdens that we are carrying and others are sharing, which is why the United States has never officially accepted that percentage formula. Nevertheless, there is a distinction made by other countries that they separate the economic development aid from military support activities, and they try and keep them distinct.

Mr. LONG. It is to their advantage to do so in presenting the propaganda. But why should our State Department and our Treasury acquiesce in making this very unfavorable picture for the United States, compared with other countries?

Mr. HENNESSY. It leads to an endless debate of how much of our defense budget goes to protect them and how much in the absence of that they would be willing to put up themselves.

I think in terms of some measure of effort, of what it costs us, you have to relate what we are putting in to something—so GNP is what people most normally use.

Mr. LONG. I have no objection to using the GNP as a standard, but let us——

Mr. HENNESSY. You have to correct for these other factors.

Mr. LONG. As a matter of fact, we are putting a very large proportion into national defense and to defend countries which are putting up a much smaller percentage. Is it true that Germany is putting up a substantially smaller percentage of its GNP for its national defense than we are putting up?

Mr. HENNESSY. I am sure they are. I don't know the specific figures.

Mr. LONG. Somewhere around 4 or 6 percent?

Mr. HENNESSY. Countries like Canada, considerably less.

Mr. LONG. I want to see this in the record, and I would wish you people, in justifying your AID request, would keep that in view.

I also would like to point out that the GNP is a very imperfect measure of welfare, and we are beginning to see that more and more because we have tremendous social and economic problems in this country, and no matter how high the GNP goes, it doesn't seem to solve those problems.

I think it is a phony indicator to a very large extent of welfare and of sacrifice. I think we ought to hear less and less of this.

Mr. PASSMAN. Would the gentleman yield at that point?

Mr. LONG. Yes.

Mr. PASSMAN. I wonder if you would place in the record at this point the GNP, let us say, of Japan, West Germany, and Canada, and possibly other developed countries. Thank you.

[The information follows:]

Gross national product industrial countries 1971

[Billion dollars]

Canada	85.88	Iceland	0.60
United States	1,068.84	Ireland	4.62
Japan	225.03	Italy	101.57
Australia	38.34	Netherlands	37.19
Austria	16.50	Norway	12.94
Belgium	29.12	Portugal	6.78
Luxembourg	1.04	Spain	36.30
Denmark	17.35	Sweden	33.54
Finland	11.23	Switzerland	24.54
France	162.79	Turkey	11.94
Germany	217.37	United Kingdom	136.66
Greece	10.70		

AID TO LOWER INCOME GROUPS

Mr. LONG. How strong is the commitment of the World Bank to lower income groups in the member countries?

Mr. REYNOLDS. An increasing effort has been made in recent years.

Mr. LONG. That could be. It has perhaps in the past been very, very feeble. Now it is only very feeble. How strong is it?

Mr. REYNOLDS. No, it is strong. The purpose of the Bank, of course, is to aid development and the projects——

Mr. LONG. And not to help redistribution of income?

Mr. REYNOLDS. To do that, too, if it possibly can, but not in substitution for development. It could do it within the context of an expanding national product, if you will, as opposed to simply redistributing what they have at the moment.

Mr. LONG. I note that in a World Bank press release, the World Bank approved a $26 million loan to 700 individual ranchers in Brazil, at 7.25-percent interest. Were these ranchers low-income ranchers?

Mr. REYNOLDS. They weren't. I think their income varied. It covered quite a spectrum but some of them were clearly not low-income ranchers.

Mr. LONG. They were high-income ranchers?

Mr. REYNOLDS. Some of them were quite large. I don't think we had data on their incomes but they had large operations.

Mr. LONG. When small business people come to me and try to get money for loans, we are told that the funds are exhausted. Why should we be taking U.S. money and giving it to the World Bank so that they can give loans to very sizable ranching operations?

Mr. REYNOLDS. I should make clear for the record this was a World Bank loan, not an IDA credit.

Mr. LONG. We are being asked now to contribute to these international institutions because they are supposed to be doing some good. But then they are doing things that you find it very difficult to defend.

Mr. REYNOLDS. This particular loan was one which was made to an intermediate credit institution which relent the funds at something much closer to a commercial rate of interest.

Mr. LONG. I am not saying you did it personally but I am just saying this is what happens when you get multilateral institutions. The rate was 7.25 percent. What is the rate of interest in those countries?

Mr. REYNOLDS. That, Mr. Long, was the rate on the bank loan to Brazil. This was a loan to Brazil. The relending by the Brazilian institution who received the money in the first instance to the ranchers in question was at a considerably higher rate of interest.

Mr. LONG. What was it?

Mr. REYNOLDS. I don't have the precise figure at hand, but it was at what would be considered a market rate of interest in Brazil. There was, I think, a rate which had an indexing feature rising from the inflationary condition in Brazil but I think it was something like 10, 11 percent. I would have to check.

Mr. LONG. Is that in fact the market rate of interest in Brazil?

Mr. REYNOLDS. I forget the exact——

Mr. LONG. Remember, that country has had inflation going on for a long, long time. I might be a little surprised to hear the market rate of interest was as low as 11 percent.

Mr. REYNOLDS. As I say, there was an indexing feature built into the repayment requirement on that particular loan but I think it worked out at a rate of interest of something like 10 percent.

Mr. HENNESSY. One thing they have done in Brazil is put a monetary correction factor in, so that inflation gets taken care of automatically, so that he may not be adding that in because the real cost——

Mr. LONG. I would like to know what the real rate of interest is that these ranchers are being charged and what profit the bank is getting on it. This was the Bank of Brazil, right?

[The information follows:]

BRAZILIAN LIVESTOCK PROJECT—INTEREST RATES

The nominal rate of interest charged to subborrowers (ranchers) by the participating banks is 7¼ percent. Three percent is retained by the participating banks to cover loan processing expenses and 4¼ percent is passed back to

the Brazilian Central Bank. In addition to the nominal rate of interest, the principal amount of outstanding subloans is adjusted upward annually in proportion to the devaluation of the Brazilian cruzeiro relative to the U.S. dollar. Since the dollar value of the cruzeiro fell approximately 12 percent over the past year, the effective rate of interest in money terms for that period was 19¼ percent. With domestic prices in Brazil having risen around 15 percent, the real rate of interest was roughly 4¼ percent.

The upward adjustment of principal in response to cruzeiro devaluation was worked out in agreement with the World Bank as a means of protecting principal and interest from erosion by inflation. It is not fully effective in this regard, and more needs to be done to raise real rates of interest to levels which more accurately reflect the scarcity value of capital in the Brazilian economy. Nevertheless, the system represents a substantial improvement over the negative real rates of interest typical of Brazilian agricultural lending programs in the past.

Mr. REYNOLDS. I forget the exact amount. It was a Brazilian relending institution.

Mr. LONG. Why should we be giving money below the market rate of interest in Brazil to a Brazilian banking institution? Why should we be helping out Brazilian banks? I thought our job was to help low-income people.

Mr. REYNOLDS. This was not a private bank. It was a government relending institution in the agricultural field.

Mr. LONG. You know you are shadowboxing. It is just like punching a mattress.

Mr. HENNESSY. The purpose is not just to help low income people. It is to build an institutional framework so that the country can be self-sustaining. As a part of this building process you have development banks.

Mr. LONG. Government banks.

Mr. HENNESSY. Government banks. The difference in interest rate goes into covering——

Mr. LONG. Wealthy ranchers and that kind of thing.

Mr. HENNESSY. We have gone into this in some detail and would be glad to submit something for the record if you are interested. The GAO has looked into this and so has the Senate Appropriations Committee, and this is a particular aspect of the relending program which is one of the ways again of getting money out to the private sector which we think is important.

Mr. LONG. This is the only way you can think of doing it, or that the World Bank could think of doing it?

Mr. HENNESSY. It is the most efficient way, not the only way.

Mr. LONG. This is the kind of thing you propose to keep on doing, building up the World Bank so that they can turn around and build up banking institutions in these countries and make loans then to well-to-do ranchers?

Mr. HENNESSY. I don't think we are trying to make wealthy ranchers wealthier. Of the 700 ranchers, I think you can find there were higher income people included in there, moderate income, at least by our own standards.

Mr. LONG. I thought Brazil had people who are poorer than almost anywhere you can go on the earth. The problem I saw when I went to Brazil, Mr. Hennessy, was that about 10 percent of the population are living well. They have all the cars. They have all the homes. And the rest of the people are living in indescribable wretchedness and show practically no improvement.

Is that true?

Mr. HENNESSY. If their real income is going up 10 percent a year I think you have to argue everyone is better off.

Mr. LONG. You mean you hope that is true?

Mr. HENNESSY. No; I don't think it is mathematically impossible. The point is that income distribution is a question which Brazil has looked at and which the World Bank has gone on record in favor of. In this particular loan to the ranchers we, ourselves, raised some questions, for the same reason.

The Bank should have focused their activities on the lower end of the spectrum, in something like agriculture.

Mr. LONG. The Chairman in a very diplomatic way reminded me that I have used 12 of my 5 minutes.

MAINTENANCE OF VALUE

Mr. PASSMAN. Thank you, Dr. Long.

Before I yield to Mr. Miller I wonder if we may put in the record something at this point with respect to the maintenance of value request for funds. Many of the international organizations where we had previously made commitments came in and said:

> When you gave us this money it would buy this much. Now for various reasons it buys less, so we want sufficient funds to buy as much goods and services as we could have purchased at the time you gave it to us.

Mr. Hennessy, as a member of the U.S. Treasury, do you know the total amount that is being requested for all the international organizations for the maintenance of value payments?

Mr. HENNESSY. Including the International Monetary Fund?

Mr. PASSMAN. Everything.

Mr. HENNESSY. $2 billion.

Mr. PASSMAN. In other words, we are being called upon to appropriate an additional $2 billion to offset the loss in purchasing power of the dollar since we previously made the commitment.

Is that stated correctly?

Mr. HENNESSY. There is an offsetting increase in our assets. A good portion of the $2 billion of the increase in the liabilities will not involve any budgetary expenditure by the United States.

Mr. PASSMAN. But you are asking that that much money be authorized and/or appropriated, $2 billion, and the sole purpose is because the dollar has lost that much purchasing power whether it is on a borrowed basis or whether it is something like callable capital.

It adds up to the fact we still have to appropriate over $2 billion; doesn't it?

Mr. HENNESSY. As long as there is no misunderstanding that there is going to be a budgetary outflow.

Mr. PASSMAN. Now, some of it is for expenditure. For other portions, of course, you are asking for an appropriation, so as to have it available in the event it has to be called upon.

Mr. HENNESSY. That is correct.

Mr. PASSMAN. And purely and simply because of the——

Mr. HENNESSY. Devaluation of the dollar.

Mr. PASSMAN. Thank you.

Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. Reynolds, in your testimony you note that 22 nations agreed to provide IDA with $2.44 billion over a 3-year period and the U.S. share is $960 million, or 39.3 percent of the total. Do we have a listing of the other natons and what percentage they are contributing?

Mr. REYNOLDS. Yes, sir.

Mr. MILLER. Is it possible to furnish that for the record?

Mr. REYNOLDS. Yes, sir, very easily.

Mr. MILLER. I would ask unanimous consent that be included in the record, Mr. Chairman.

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

[The information follows:]

TABLE I.—IDA THIRD REPLENISHMENT

	Total	
	Amount (7)	Pt. I (percent) (8)
Australia	48,000	2.00
Austria	16,320	.68
Belgium	40,800	1.70
Canada	150,000	6.26
Denmark	26,400	1.10
Finland	12.240	.51
France	150,000	6.26
Germany	234,000	9.76
Italy [1]	96,720	4.03
Japan	144,000	6.00
Kuwait	10,800	.45
Luxembourg	1,200	.05
Netherlands	67,560	2.82
Norway	24,000	1.00
South Africa	3,000	.13
Sweden	102,000	4.25
United Kingdom	311,040	12.97
United States	960,000	40.68
Total, Pt. I members	2,398,080	100

DISBURSEMENT RATES

Mr. MILLER. Another area of your testimony indicates that the installment will be paid in letter-of-credit form. Apparently that is the installment that you are asking for now, the appropriation of some $320 million?

Mr. REYNOLDS. Yes, sir.

Mr. MILLER. And it is to be drawn only as IDA requires funds to meet the disbursements on its credit commitments to borrowers in the developing countries.

Do you have an idea as to when this might take place? I ask this question because we had some information that indicated that some of the Banks were not moving very fast, and they had money in the pipeline, and is that possible, that money would be in the pipeline, and it may be several years before the $320 million would be drawn?

Mr. REYNOLDS. It would be several years before it would be drawn upon, yes, sir; but IDA can only make commitments as the money is committed to it, so there is a much earlier requirement for the actual provision of the appropriation in letter-of-credit form.

Mr. HENNESSY. If they obligate the funds and they sign a loan contract on day 1, it may take them up to 7, 8 years to actually disburse

it, but the day that they sign the loan commitment, they make a legal commitment between IDA and, for instance, Bolivia or some other country. They have to count on those resources, and the reason they can count on them is because we and other member countries have opened non-interest-bearing letters of credit for the full amounts. So you can consider they have funds on hand which they haven't drawn down to cover their obligation.

But there aren't any unobligated funds.

Mr. MILLER. Now, I have to assume if that money would be appropriated, then you would be in a position to invest that money somewhere. Is that what we are saying? What would you do with that money if you drew the money but yet only gave a letter of credit to the bank?

Mr. REYNOLDS. The money remains in the U.S. Treasury. There is no transfer of funds to IDA until such time as they draw on the letter of credit.

Mr. HENNESSY. The Treasury opens up a letter of credit in favor of the bank. As they need to make disbursements, they draw under that letter of credit until it is exhausted. It takes up to an 8- or 9-year period to exhaust that amount of funds.

Mr. REYNOLDS. I should emphasize that is a non-interest-bearing letter of credit.

Mr. PASSMAN. Would this help the record? Of course, it is a full-time job for you people. You work 365 days a year with your project. We have only a few hours a week. We have other things to do, but I think you had one instance in one of these multilateral organizations, the Asian Development Bank, where we borrowed $40 million from the U.S. taxpayers. We turned it over to the Asian Development Bank, and a short time thereafter we borrowed the same amount of money back from the Asian Development Bank at 6 percent, which means we were paying 12 percent on undisbursed money. Isn't that a statement of fact?

Mr. HENNESSY. That was a cash pay-in on the first capital——

Mr. PASSMAN. I thought I made it as clear as I could that we paid in $40 million. We had to borrow the $40 million and at a subsequent date we borrowed the same $40 million back from the Asian Development Bank, so the American taxpayers were paying another 6 percent for the money. Then we were paying the Asian Development Bank 6 percent for the same money we gave them.

Thank you, Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. YATES. Is that true?

Mr. PASSMAN. Certainly it is true. I don't make a record that is not backed up.

Mr. YATES. I didn't hear a response from the witness.

Mr. LONG. I would like to know who is responsible for that ingenious policy.

Mr. PASSMAN. That is a correct statement, isn't it?

Mr. HENNESSY. Let me explain it in full.

Mr. PASSMAN. Why don't you answer the question. I asked one separate question. Is it not so that we paid into the Asian Development Bank $40 million and at a subsequent date we borrowed the money back from them and we were paying interest on the money we

borrowed and we were also paying the Asian Development Bank interest, and I think the rate was 6 percent.

Is that correct?

Mr. HENNESSY. If I could explain it, a portion of the original capital subscription to that bank when it was starting up was put in in cash by all member countries and to get the cash you can either say that we get it out of the general operating revenues of the Treasury or we went out and borrowed. We can have a different point of view on that.

That was made not in a letter of credit but totally in cash.

Mr. PASSMAN. That is exactly what I said for the record. Did we borrow that money back?

Mr. HENNESSY. During the period of time in which the funds were on deposit in the bank and they didn't need them in its initial starting out phase, they bought U.S. Treasury bills so they were earning interest for that period of time.

Mr. PASSMAN. You give a filibuster. You didn't answer the question.

Mr. LONG. That is what I want to get. Was what the chairman said substantially true?

Mr. HENNESSY. I just want to make sure——

Mr. LONG. I understand. You can give all your caveats and put footnotes later. Is what the chairman said substantially true?

Mr. HENNESSY. Substantially true, yes.

Mr. PASSMAN. Thank you very much.

This is what you get up against when they have 365 days a year cooking up all these answers. We have a matter of hours, and I know that I made a statement for the record and your own testimony previously answered it was true.

Thank you, Mr. Miller.

Mr. HENNESSY. I thought some of the background might be interesting to Mr. Yates.

Mr. PASSMAN. You give too much background on this stuff.

Mr. MILLER. The purpose of my question was to find out in the letter of credit form whether the moneys would be drawn from the Treasury and invested.

Mr. HENNESSY. The answer is "No."

Mr. MILLER. It has happened in the past but it will not happen with this particular amount. That is what I understand now. You have estimated that in 1974 U.S. suppliers will receive contracts of roughly $130 million to provide goods and services for IDA-financed projects. What are these goods and services?

Mr. REYNOLDS. All the goods and services that are utilitzed on the development projects that are financed—capital equipment, consultant services, the construction services, the construction companies, the whole range of equipment of various kinds, tractors for agricultural projects, industrial equipment.

TYPES OF PROJECTS FINANCED

Mr. MILLER. What are the primary IDA-financed projects, what type of project?

Mr. REYNOLDS. I think, Congressman, the record shows that the two major fields in which IDA has lent has been transportation, a whole range of transportation projects, roads, railways, ports. That is the first. I think roughly 28 percent of the lending has been in that field.

Mr. MILLER. Agriculture?

Mr. REYNOLDS. The second one is agriculture.

Mr. MILLER. Aircraft?

Mr. REYNOLDS. No aircraft. The World Bank itself has done a few aviation projects but by and large airport infrastructure projects. They do not include aircraft. The other major lending field of IDA is agriculture, a whole range of agricultural projects, irrigation, agricultural credit, crop development projects of various kinds.

Mr. MILLER. When you say agricultural credit, about the same that we would have in this country? Are you speaking of supplying funds for purchase of fertilizers, seed?

Mr. REYNOLDS. That is right.

Mr. MILLER. This would be to individual——

Mr. REYNOLDS. Farm development of various kinds.

Mr. MILLER. Individuals, though, people who have small farms?

Mr. REYNOLDS. Agricultural credit projects by and large do go to the individual farmers through intermediate credit institutions.

Mr. MILLER. Do you have any idea of what size farms we are talking about?

Mr. REYNOLDS. It ranges but by and large I think in the overwhelming number of projects of this type funds would go to relatively small and medium-sized farmers, not to the large rancher type of operation mentioned a moment ago.

Mr. MILLER. Thank you very much.

Thank you, Mr. Chairman.

USE OF CALLABLE CAPITAL

Mr. PASSMAN. So that we can set the record straight, on the money we appropriate for callable capital under certain circumstances they could call upon that capital, could they not? That is the purpose of having it, in the event that conditions should warrant it that they could call for that capital; isn't that correct?

Mr. REYNOLDS. We subscribe callable capital to the World Bank, Mr. Chairman, not to IDA.

Mr. PASSMAN. I am talking about all of the callable capital in these different organizations. Under certain conditions they could call for this capital, couldn't they?

Mr. REYNOLDS. If necessary to meet their own debt obligation.

Mr. PASSMAN. I try to be as fair as I can be. It is most difficult to get a direct answer to a direct question. If I may ask it over, under certain circumstances and conditions they could call upon this callable capital in cash, couldn't they?

Mr. REYNOLDS. Yes.

Mr. PASSMAN. Thank you very much.

Mr. Roush.

IBRD/IDA RELATIONSHIP

Mr. ROUSH. Thank you, Mr. Chairman.

Mr. Reynolds, I am very new on this committee and I have just elementary questions.

Would you please explain the relationship between IDA and the World Bank?

Mr. REYNOLDS. IDA is an affiliate of the World Bank.

Mr. ROUSH. Does it have other affiliates?

Mr. REYNOLDS. The World Bank has two affiliates, IDA and the IFC, the International Finance Corporation. IDA is an integral part of the World Bank. It has virtually the same membership, same board of directors, the same staff. All that really differentiates the two is the source of funding. IDA lends from appropriated moneys on very soft or concessional terms. The World Bank lends on much closer to commercial terms on funds that are obtained primarily these days from its own borrowings in private capital markets.

Except for this distinction it is basically two separate operations of one institution. The other affiliate is the International Finance Corporation which is more of a separate organization. It has a separate slate of officers, a separate staff.

Mr. ROUSH. And how many nations make contributions to IDA or do they make them to IDA and to the World Bank?

Mr. REYNOLDS. IDA has, I believe, 112 members at the moment and 18 or 19 of these are developed country members who have made contributions every 3 or 4 years, the so-called replenishment contributions that we are here for today.

The part II countries, the developing countries, put in lesser amounts of money but they do make contributions also.

Mr. ROUSH. Is only a participating country then entitled to borrow?

Mr. REYNOLDS. Yes, in IDA only the poorest of the developing countries are entitled to borrow. All of the countries which borrow from IDA with rare exceptions have incomes of less than $375 per year per capita.

Mr. ROUSH. And how many of these developing countries are involved?

Mr. REYNOLDS. As I say there are 112 member countries all together and I think 18 or 19 of them are developed, so all of the rest are developing countries, part II members, but only those who have per capita incomes of less than $375 from that group are eligible to borrow from IDA.

Mr. ROUSH. And is there an overlapping of the authority of these developing countries to borrow from, say, the Asian Development Bank?

In other words, may they be members of both and are they in certain instances?

Mr. REYNOLDS. Yes.

Mr. ROUSH. And do they borrow from both?

Mr. REYNOLDS. The borrowing countries of the Asian Development Bank by and large are limited to Asian countries but most, if not all, of them are also members of IDA and are eligible to borrow from it, too, provided they meet the poverty criteria of IDA.

Mr. ROUSH. Thank you, Mr. Chairman.

PURPOSES OF DEVELOPMENT ASSISTANCE

Mr. PASSMAN. Thank you very much.

Before yielding to Mr. Conte, would this make a contribution to the record? With respect to part II countries, I believe India for each $2 they put in they draw out $44 and for Pakistan each $1 they contribute they draw out $52. These are the part II developing countries. I think that is correct, isn't it?

Mr. YATES. Mr. Chairman, are these loans?

Mr. PASSMAN. Fifty years, no interest, 10-year grace period, three-quarters of 1 percent service charge. Is that correct?

Mr. REYNOLDS. That is correct.

Mr. LONG. That is as close as you can get to a grant because they are never going to pay it back. We all know that. We are realistic enough to know it.

Mr. ROUSH. I don't know that. That is just a supposition on your part. It may be valid or it may be invalid.

Mr. LONG. Would you put your money into it?

Mr. ROUSH. No; I wouldn't but that is beside the point. There is a purpose here to be fulfilled by these people and they are attempting to achieve that purpose and part of that if it is fulfilled will mean these countries will pay back their loans.

If we fail in bringing them to a point of economic stability they won't, but if they succeed I think they will.

Mr. LONG. Does the gentleman know the history of our lending to countries all over the world? The history of any country ever paying back its loans to another country is extremely dim.

Mr. PASSMAN. Let us hope they pay it back.

Mr. LONG. In part, most of our railroads were financed on loans, later repaid.

Mr. ROUSH. Has anyone been in default on their loans?

Mr. HENNESSY. The World Bank in 25 years of operation has never had a default and has only had to reschedule its loans to a country once and that is why they are able to finance their bonds in the private market.

Mr. REYNOLDS. The loan repayments to the World Bank at the moment exceed $5 billion during the life of the World Bank.

Mr. PASSMAN. Of course they are developed through weaker organizations, the International Finance Corporation and the International Development Association, take these doubtful loans, isn't that true? The World Bank would not get into that type of a loan?

Mr. REYNOLDS. Not doubtful loans; loans to poorer countries.

Mr. PASSMAN. That was my label, not yours.

Mr. LONG. If the Chairman would yield for a——

Mr. PASSMAN. I have yielded to Mr. Conte and we will come back later.

Mr. CONTE. With regard to these questions about putting capital into the Asian Development Bank and then the Asian Development Bank lending money to the United States, I want to make sure I understand this. What you are saying is that you put in this cash for the Asian Development Bank. They in turn bought some bonds.

Mr. HENNESSY. Temporarily bought some Treasury bills.

Mr. CONTE. There was no outright loan to the United States?

Mr. HENNESSY. No; while they were disbursing the funds.

Mr. CONTE. They did exactly what the District of Columbia did on revenue sharing. We gave them some money under the revenue sharing program, and they went out and bought some Treasury notes.

Mr. HENNESSY. Right. Since we only borrow 5 percent of the total budget, you can't say that we went out and borrowed 100 percent on what we gave them.

Mr. CONTE. I think it is a lot cleaner deal than giving $4 billion to the farmers in the United States not to plant crops, mostly cotton. Then we turn around and gave them $10 million last year to promote the sale of cotton which they were supposed to plant.

IDA IV REPLENISHMENT

To me this makes a much cleaner deal, and I don't see anything wrong with it. I understand that IDA wants to start talks in the near future to discuss the question of replenishment of the IDA funds in the coming year. I also understand the U.S. Representative to IDA wanted to develop a system of coordination with the Congress and congressional participation.

Would you explain when these talks will be coming? How do you expect to work with the Congress to coordinate the commitments made by our Government to IDA?

Mr. HENNESSY. As a result of particularly this committee's concern at not being involved early on in the process we have tried to keep this committee and the rest of the Congress informed of where we are in our international negotiations. For IDA IV, which is due to actually begin a year from this June, we have had two meetings already, international meetings, and we did request participation of the Congress. No one was available to come, but we have kept the committees and members informed by letter.

Mr. CONTE. When you say participation by the Congress——

Mr. HENNESSY. Actually be part of the U.S. delegation. We would welcome members of the U.S. Congress to act either as observers or full members of the U.S. delegation at these international negotiations in which the United States is trying to bargain for its share and in this particular case a lower share of the total piece of pie that is being contributed in the next round.

The next meetings will be here in Washington in July. On this next round of IDA most other governments are ready to go forward with a much larger amount and with larger shares on the part of some countries. However, we are reluctant to go forward until we have finished our own consultation process with the Congress and get some sense of what you think would be a reasonable amount before we are willing to commit the United States in any way, either morally or in any sense. So that it would be helpful in the July meetings if members of this committee or other members would be willing to participate and we could have the benefit of your thinking.

Mr. CONTE. That will be held in Washington?

Mr. HENNESSY. Yes.

MEMBERSHIP OF IBRD/IDA

Mr. CONTE. In a recent publication by the Overseas Development Council entitled, "The United States and the Developing World: Agenda for Action," James Grant, the president of ODC, stated the World Bank has taken over the global leadership of the development field. However, some criticism was leveled at the Bank because of its lack of universality.

Specifically he mentioned nonrepresentation of most Socialist coun-

tries and the underrepresentation of developing countries and some developed countries, notably Japan in the Bank's management.

Would you care to comment on this statement?

Mr. HENNESSY. Let me take the question in parts. They are different parts; one is that it does not have Socialist members.

Mr. CONTE. Lacking universality.

Mr. HENNESSY. Let me take the universality point. The Bank lends only to its members and its membership is open to any country that is a member in good standing of the IMF, and if they join the IMF they can in turn join the World Bank and there are certain rules and conditions governing that IMF membership, many of which have to do with disclosure of economic information. In the past the Socialist bloc countries, the Communist countries, have not seen fit to join, much of which I think is due to their unwillingness to provide economic data or allow international technicians to go in and examine their economy.

One exception to that is Yugoslavia which has been a member of the World Bank since its inception in 1945 and is a member in good standing. It has received loans so the onus is on the other countries.

If they wanted to join and were willing to live by the rules, which we think are good rules, then they would be eligible if they are willing to live up to that.

Therefore, on the loaning side we only lend to members. If they are not members they clearly can't borrow. There were a couple of other points.

Mr. CONTE. Japan.

Mr. HENNESSY. Japan is a member in good standing.

Mr. CONTE. Not part of the Bank management.

Mr. HENNESSY. I don't know what percentage of the Bank's management is Japanese at this time. There are staff technicians. I don't think you find as a cultural thing the Japanese emigrate very much and work that much abroad in international institutions in general, so that I am not sure what the reason is.

It is quite clear the World Bank, being in Washington and having as its first language English, has a predominance of Americans and English-speaking people in it, but there is certainly no discrimination in the policies one way or the other in terms of nationalities.

Mr. Reynolds may have specific figures here.

Mr. CONTE. Why don't you put those in the record and save time because I have gone 4½ minutes.

Mr. PASSMAN. Take the remainder of your time, Mr. Conte.

Mr. CONTE. He can put it in the record.

Mr. REYNOLDS. There are 29 Japanese on the professional staff.

Mr. CONTE. Thank you very much.

PURCHASE OF U.S. GOVERNMENT SECURITIES

Mr. PASSMAN. I would like to refer, Mr. Hennessy and any other members of the committee interested in the facts, to the money that we borrowed from the Asian Development Bank and the testimony that appeared on page 274 of the hearings of 1969.

You may recall it was during that period that we were out borrowing money. I think we borrowed $20 million from Taiwan. We borrowed $100 million from Thailand. I believe that is correct, isn't it?

Mr. HENNESSY. There were swap arrangements set up with those countries that allowed us to do both.

Mr. PASSMAN. I never expected a direct answer.

Let me ask you this question. Let us keep the record straight. Of course we were struggling then as we are now to bring some fiscal soundness out of our chaotic condition and we were out, under Mr. Johnson, finding nations with surplus funds and were borrowing them. We borrowed $100 million from Thailand at 6 percent, due in 4½ years. That money is due on July 2. Am I making a correct record, Mr. Hennessy?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. We also borrowed $20 million from Taiwan.

Let me drop the curtain before I yield to Mr. Roybal. On the callable capital we appropriate the money. The account remains dormant until there is some default; then they could come back and call on us to put up that money. Is that correct?

Mr. HENNESSY. On the callable capital.

Mr. PASSMAN. Let me make my point on the callable capital. There is no interest paid because we haven't borrowed the money.

Mr. HENNESSY. Yes.

Mr. PASSMAN. On this $40 million that we gave to the Asian Development Bank——

Mr. HENNESSY. That was not callable.

Mr. PASSMAN. No, that was cash. Had we withheld that cash until they actually needed it, then whatever amount of money and interest we paid on the bonds or the loans or whatever you want to call it, that much money would have remained in the Treasury, would it not?

Mr. HENNESSY. That is one way of looking at it, yes.

Mr. PASSMAN. Would remain in the Treasury——

Mr. HENNESSY. If we had opened a letter of credit——

Mr. PASSMAN. You are not answering my question. I am talking about the $40 million we gave them. Had we kept that $40 million until they actually needed it for disbursement, whatever amount of interest we paid them would have remained in the Treasury, wouldn't it?

Mr. HENNESSY. If we had opened up a letter of credit so they only drew it down as they needed it we would have lowered our borrowing requirements on the other side and you can argue, as you have, that therefore our interest cost could have gone down. We haven't had to borrow——

Mr. PASSMAN. You don't recognize facts as you see them so I respectfully urge you to do your homework a little better or else get hold of your predecessors to straighten the record out.

They answered the question directly in previous years because they were so badly in need of money to lower our balance-of-payments situation. They would have borrowed money anywhere they could.

APPROPRIATION OF CALLABLE CAPITAL

Mr. YATES. Would someone define the term "callable capital."

Mr. PASSMAN. Let Mr. Hennessy define it.

Mr. HENNESSY. It is guarantee capital. That is probably the best way to describe it. The World Bank for example, has a certain amount of capital like any bank. Let us say there is 10 percent paid in which

each member government either pays in cash or opens a letter of credit. The rest is in guarantee capital. Under the umbrella of the guarantee capital of the United States and all the other members the bank then goes out into the world private capital markets, in Europe, the United States, and Japan, and then floats World Bank bonds.

You can look in today's paper and see a quote for World Bank bonds. They borrow that money at market rates and turn around and lend it at market rates. As the country pays back the loans the bank is able to retire its bonds.

If the Bank was not able to retire a bond when it came due either out of its own resources or out of the repayment from the country, if it was in default, in other words, if the World Bank defaulted on a bond, then ultimately that responsibility would run to all the members governments including the United States.

However, it has never been called in, in 25 years.

Mr. YATES. And the proportion to which they subscribe is guaranteed?

Mr. HENNESSY. That is correct. So the only way we would have to put up all our callable capital would be if the World Bank were to go broke and the other countries would have to renege on their commitments.

Mr. PASSMAN. Let me see if I stated this correctly for the record. We have a similar arrangement in our own country, I believe, for veterans and for many of the small business people, or large business people, through the Small Business Administration.

They go down, we will say, to Quachita National Bank in Monroe, La., and they borrow $1 million, and Quachita puts up the money, but the Small Business Administration guarantees the repayment up to, I believe, 90 percent. Isn't that one way?

Mr. HENNESSY. I am not familiar with those programs. I know in general.

Mr. PASSMAN. Are you familiar with it?

Mr. REYNOLDS. I am not.

Mr. PASSMAN. Let me say this respectfully and I would rather not quarrel with you, but these are things you people should know because SBA loans are being turned down every day. Less than 10 percent of them are being approved, simply because they say we don't have the money. But you do have instances where the SBA will tell the bank, "If you will make the loan to Merchant Brown, we will guarantee 90 percent of it."

You are familiar with that, are you?

Mr. HENNESSY. Yes.

Mr. PASSMAN. On these international organizations, they are not satisfied with Uncle Sam guaranteeing this account. They say, "No, we want you to appropriate the money so it will be readily available, no questions asked."

Why wouldn't it be just as good that our Government guarantee the liquidations of these defaults, if they should ever come, rather than to have the money appropriated?

Mr. HENNESSY. I think we could do that. I think originally we started out because there was some sense in Congress it would be better to have 100-percent appropriation, but we could do 50 percent or zero percent. This is something which we have discussed, the question of

having less than 100-percent appropriation of guaranteed funds, and we are quite flexible in our current thinking. There may have been different thoughts at different times in the past, but quite clearly in the OPIC case you don't appropriate 100 percent of their reserves, so it would cause more difficulty——

Mr. PASSMAN. OPIC is not an international organization, is it?

Mr. HENNESSY. No, it is not.

Mr. PASSMAN. We don't do it for the U.S. Treasury, for flood control projects or for the Post Office, so let us not commingle the international organizations with domestic ones, but, anyway, your predecessor had a different understanding of a lot of this than you have. Maybe they were wrong.

Mr. ROUSH. I think it is refreshing to have this candid opinion expressed not dependent on what someone else said.

Mr. PASSMAN. To be frank with you, these people were testifying in the same capacity he is testifying. When you get two different types of testimony from two people doing the same work in 2 different years, which one are you going to accept at face value? That is my only worry.

Mr. Roybal.

Mr. LONG. Could I ask a question for the record before I leave.

Mr. PASSMAN. Yes.

Mr. LONG. I wonder in connection with these soft loans, the IDA loans, whether you can put in country by country, historically, the amount of money that has been loaned to these various countries by IDA and how much has been paid back, the amount and the percentage?

Mr. HENNESSY. Certainly.

[The information follows:]

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
EAST AFRICA												
Botswana:												
Commitments:												
IBRD											32.0	
IDA					3.6					2.5	3.0	3.7
Gross disbursements					.2	1.3	1.4	0.8	0.1		2.0	7.4
Repayments												
Net disbursements					.2	1.3	1.4	.8	.1		2.0	7.4
Interest and charges												.3
Net transfer[2]					.2	1.3	1.4	.8	.1		2.0	7.1
Burundi:[3]												
Commitments: IDA	[4] 4.8					1.1			1.8	.4		
Gross disbursements	4.3	0.5						.2	.5	.3	.6	.5
Repayments	.1	.7	0.8	0.8	.2	.2	2	.3	.3	.3	.3	.3
Net disbursements	4.2	−.2	−.8	−.8	−.2	−.2	−.2	−.1	.2		.3	.2
Interest and charges	.5	.2	.3	.2	.2	.2	.2	.2	.2	.2	.2	.1
Net transfer	3.7	−.4	−1.1	−1.0	−.4	−.4	−.4	−.3		−.2	.1	.1
EAC:												
Commitments: IBRD	24.0					38.0	13.0			87.8		8.0
Gross disbursements	24.0					4.3	10.5	15.3	8.3	6.6	10.3	12.7
Repayments	3.5	1.1	1.2	1.2	1.3	1.3	1.4	1.5	1.6	1.6	1.7	2.1
Net disbursements	20.5	−1.1	−1.2	−1.2	−1.3	3.0	9.1	13.8	6.7	5.0	8.6	10.6
Interest and charges	5.1	.9	.9	.8	.8	.7	1.0	1.6	2.2	2.8	3.6	4.6
Net transfer	15.4	−2.0	−2.1	−2.0	−2.1	2.3	8.1	12.2	4.5	2.2	5.0	6.0

Liberia:												
Commitments:												
IBRD				3.3		1.0			3.6	7.4	4.7	1.0
IDA												8.4
Grosss disbursements					.2	1.5	1.5	.9	.1	2.1	1.3	2.5
Repayments												.4
Net disbursements					.2	1.5	1.5	.9	.1	2.1	1.3	2.1
Interest and charges						.1	.1	.2	.2	.3	.5	.6
Net transfer					.2	1.4	1.4	.7	−.1	1.8	.8	1.5
Mali:												
Commitments: IDA							9.1			7.7		10.5
Gross disbursements							1.0	.5	2.9	1.2	1.5	5.8
Repayments												
Net disbursements							1.0	.5	2.9	1.2	1.5	5.8
Interest and charges												.1
Net transfer							1.0	.5	2.9	1.2	1.5	5.7
Mauritania:												
Commitments:												
IBRD	66.0											
IDA					6.7				3.0			4.2
Gross disbursements	.4	24.3	37.5	3.8		.2	.1	1.1	1.3	1.8	3.4	.9
Repayments						1.2	2.5	5.8	6.1	6.5	6.9	7.3
Net disbursements	.4	24.3	37.5	3.8		−1.0	−2.4	−4.7	−4.8	−4.7	−3.5	−6.4
Interest and charges	.3	.8	2.4	4.7	4.0	3.7	3.9	3.3	3.0	2.5	2.2	1.9
Net transfer	.1	23.5	35.1	−.9	−4.0	−4.7	−6.3	−8.0	−7.8	−7.2	−5.7	−8.3
Malawi:												
Commitments: IDA							6.8	21.2		5.3	7.3	6.6
Gross disbursements							.3		4.3	6.3	9.9	6.7
Repayments												
Net disbursements							.3		4.3	6.3	9.9	6.7
Interest and charges											.1	.2
Net transfer							.3		4.3	6.3	9.8	6.5

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
EAST AFRICA—Continued												
Mauritius:												
Commitments:												
IBRD				7.0								
IDA											5.2	3.5
Gross disbursements				3.7	2.1	1.2						.7
Repayments						.1	.3	.3	.3	.3	.3	.3
Net disbursements				3.7	2.1	1.1	−.3	−.3	−.3	−.3	−.3	.4
Interest and charges				.1	.2	.3	.4	.3	.3	.3	.3	.3
Net transfer				3.6	1.9	.8	−.7	−.6	−.6	−.6	−.6	.1
Rhodesia:												
Commitments: IBRD	83.1				3.9							
Gross disbursements	79.4	2.2	1.5			3.3	.5					
Repayments	6.7	1.8	3.0	3.8	3.9	4.1	4.2	4.4	4.6	4.3	4.0	4.1
Net disbursements	72.7	.4	−1.5	−3.8	−3.9	−.8	−3.7	−4.4	−4.6	−4.3	−4.0	−4.1
Interest and charges	15.3	3.8	3.7	3.5	3.3	3.2	3.1	2.8	2.6	3.9	3.5	3.4
Net transfer	57.4	−3.4	−5.2	−7.3	−7.2	−4.0	−6.8	−7.2	−7.2	−8.2	−7.5	−7.5
Rwanda:												
Commitments: IDA										9.3		3.0
Gross disbursements											.2	.2
Repayments												
Net disbursements											.2	.2
Interest and charges												
Net transfer											.2	.2

Somalia:												
Commitments: IDA					6.2			2.3	.6		3.3	9.6
Gross disbursements								1.1	1.2	3.2	3.0	.2
Repayments												.1
Net disbursements								1.1	1.2	3.2	3.0	.1
Interest and charges											.1	.1
Net transfer								1.1	1.2	3.2	2.9	
Sudan:												
Commitments:												
IBRD	74.0					31.0		24.0	5.0			
IDA	13.0							8.5				11.3
Gross disbursements	27.6	14.7	12.6	9.2	7.9	9.8	8.4	11.6	9.3	11.5	9.0	5.0
Repayments		1.0	1.8	2.2	2.3	2.4	2.6	2.7	3.5	3.7	4.7	5.1
Net disbursements	27.6	13.7	10.8	7.0	5.6	7.4	5.8	8.9	5.8	7.8	4.3	−.1
Interest and charges	3.2	2.0	2.7	3.0	3.2	3.3	3.6	3.8	4.3	4.7	5.1	5.2
Net transfer	24.4	11.7	8.1	4.0	2.4	4.1	2.2	5.1	1.5	3.1	−.8	−5.3
Swaziland:												
Commitments:												
IBRD		4.2					2.8					
IDA	2.8											
Gross disbursements	.7	1.3	3.0	1.8	.3		.2	1.7	.7	.2		
Repayments					.1	.1	.2	.2	.2	.3	.3	
Net disbursements	.7	1.3	3.0	1.8	.2	−.1		1.5	.5	−.1	−.3	
Interest and charges			.1	.2	.2	.2	.2	.2	.3	.4	.3	
Net transfer	.7	1.3	2.9	1.6		−.3	−.2	1.3	.2	−.5	−.6	
Tanzania:												
Commitments:												
IBRD								5.2	7.0		30.0	
IDA				18.6		5.0		3.0	14.3	7.5	12.3	17.3
Gross disbursements				.5	1.8	2.9	4.8	6.0	8.1	8.1	10.9	19.2
Repayments												.2
Net disbursements				.5	1.8	2.9	4.8	6.0	8.1	8.1	10.9	19.0
Interest and charges								.1	.1	.2	.5	1.0
Net transfer				.5	1.8	2.9	4.8	5.9	8.0	7.9	10.4	18.0

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
EAST AFRICA—Continued												
Uganda:												
Commitments:												
IBRD	8.0											
IDA							10.0	8.4	3.0	11.6	11.3	
Gross disbursements		4.3	2.1	1.8	.2			.8	3.4	6.8	6.8	7.6
Repayments				.1	.3	.3	.3	.4	.4	.4	.4	.4
Net disbursements		4.3	2.1	1.7	−.1	−.3	−.3	.4	3.0	6.4	6.4	7.2
Interest and charges		.1	.3	.4	.5	.5	.4	.4	.4	.4	.5	.5
Net transfer		4.2	1.8	1.3	−.6	−.8	−.7		2.6	6.0	5.9	6.7
Zaire:												
Commitments:												
IBRD	120.0											
IDA									6.0	5.0	7.0	35.5
Gross disbursements	79.1				12.5					.3	2.0	3.5
Repayments	10.3	4.8	6.0	6.1	5.1	5.3	5.6	5.7	5.8	5.9	6.1	5.6
Net disbursements	68.8	−4.8	−6.0	−6.1	7.4	−5.3	−5.6	−5.7	−5.8	−5.6	−4.1	−2.1
Interest and charges	18.9	3.8	3.6	3.2	2.7	3.1	2.8	2.5	2.2	1.9	1.6	1.3
Net transfer	49.9	−8.6	−9.6	−9.3	4.7	−8.4	−8.4	−8.2	−8.0	−7.5	−5.7	−3.4
Zambia:												
Commitments: IBRD	63.5				3.9		17.5		35.9	10.8	40.0	
Gross disbursements	63.0	.5				3.3	.6	6.3	9.4	7.1	5.4	10.0
Repayments	3.5	1.2	1.9	2.6	2.8	2.9	3.0	3.3	3.5	3.6	4.8	4.9
Net disbursements	59.5	−.7	−1.9	−2.6	−2.8	.4	−2.4	3.0	5.9	3.5	.6	5.1
Interest and charges	12.6	2.7	2.9	2.8	2.7	2.6	2.6	2.4	2.6	1.7	2.1	2.6
Net transfer	46.9	−3.4	−4.8	−5.4	−5.5	−2.2	−5.0	.6	3.3	1.8	−1.5	2.5

Total east Africa:												
Commitments:												
IBRD	406.5	13.3	4.2	30.5	7.8	73.8	33.3	47.5	81.8	124.7	133.3	47.8
IDA	13.0	2.8	13.5	18.6	20.1	17.4	42.7	63.9	33.8	63.9	76.5	166.5
Gross disbursements	298.0	27.6	21.3	23.6	34.2	39.6	42.9	56.8	69.5	77.3	87.8	112.9
Repayments	26.5	11.7	15.8	18.3	18.0	19.0	20.2	21.4	23.6	24.3	26.3	25.9
Net disbursements	271.5	15.9	5.5	5.3	16.2	20.6	22.7	35.4	45.9	53.0	61.5	87.0
Interest and charges	59.2	14.5	15.6	15.5	15.3	15.8	16.4	16.7	17.8	19.7	21.9	24.8
Net transfer	212.3	1.4	−10.1	−10.2	.9	4.8	6.3	18.7	28.1	33.3	39.6	62.2
WEST AFRICA												
Cameroon:												
Commitments:												
IBRD							7.0		12.9	17.2		
IDA							11.0	.6		17.5	1.5	12.7
Gross disbursements								.9	2.6	5.4	6.8	9.5
Repayments												.1
Net disbursements								.9	2.6	5.4	6.8	9.4
Interest and charges										.1	.5	.8
Net transfer								.9	2.6	5.3	6.3	8.6
CAR:												
Commitments: IDA									4.2	4.3		3.9
Gross disbursements										.2	1.5	2.5
Repayments												
Net disbursements										.2	1.5	2.5
Interest and charges												
Net transfer										.2	1.5	2.5
Commitments: IDA									5.9		2.2	2.2
Gross disbursements									.1	.2	.4	1.7
Repayments												
Net disbursements									.1	.2	.4	1.7
Interest and charges												
Net transfer									.1	.2	.4	1.7

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
WEST AFRICA—Continued												
Congo:												
Commitments:												
IBRD							30.0					
IDA									.6	1.5	3.5	10.3
Gross disbursements							.5	10.4	16.4	3.2	.1	.4
Repayments											1.4	5.0
Net disbursements							.5	10.4	16.4	3.2	−1.3	−4.6
Interest and charges								.3	1.1	1.8	1.8	1.8
Net transfer							.5	10.1	15.3	1.4	−3.1	−6.4
Dahomey:												
Commitments: IDA									4.6		3.5	6.1
Gross disbursements										.3	1.3	2.4
Repayments												
Net disbursements										.3	1.3	2.4
Interest and charges												
Net transfer										.3	1.3	2.4
Gabon:												
Commitments: IBRD	35.0				12.0			1.8	6.0			
Gross disbursements	19.5	12.9	2.6		2.2	6.5	3.1	.2		1.6	3.3	1.4
Repayments				2.2	2.8	2.0	2.6	2.8	3.4	3.6	3.8	4.0
Net disbursements	19.5	12.9	2.6	−2.2	−.6	4.5	.5	−2.6	−3.4	−2.0	−.5	−2.6
Interest and charges	1.5	1.7	2.5	2.0	2.3	1.7	1.9	1.6	1.3	1.2	1.1	1.3
Net transfer	18.0	11.2	.1	−4.2	−2.9	2.8	−1.4	−4.2	−4.7	−3.2	−1.6	−3.9

Gambia:											
Commitments: IDA									2.1		
Gross disbursements											.4
Repayments											
Net disbursements											.4
Interest and charges											
Net transfer											.4
Ghana:											
Commitments:											
IBRD	47.0							6.0			
IDA							10.0		14.8	7.1	
Gross disbursements		3.3	16.6	13.9	9.3	3.5	.1	4.3	4.3	4.2	9.9
Repayments							.7	1.4	1.5	1.6	1.9
Net disbursements		3.3	16.6	13.9	9.3	3.5	−.6	2.9	2.8	2.6	8.0
Interest and charges		.3	.6	1.4	2.1	2.5	2.7	2.6	2.6	2.7	2.7
Net transfer		3.0	16.0	12.5	7.2	1.0	−3.3	.3	.2	−.1	5.3
Guinea:											
Commitments: IBRD					1.7			64.5		9.0	
Gross disbursements						1.3	.4	.6	10.2	23.9	19.3
Repayments							.1	.3	.7	1.4	2.8
Net disbursements						1.3	.4	.6	10.2	23.9	19.3
Interest and charges							.1	.3	.7	1.4	2.8
Net transfer						1.3	.3	.3	9.5	22.5	16.5
Ivory Coast: [3]											
Commitments: IBRD	7.5						5.8	17.1	18.5	27.5	17.5
Gross disbursements	7.1								2.4	6.0	6.0
Repayments	3.2			.8	.9						.1
Net disbursements	3.9			−.8	−.9				2.4	6.0	5.9
Interest and charges	1.5	.2	.1	.1	.1				.1	.5	1.0
Net transfer	2.4	−.2	−.1	−.1	−.9	−.9			2.3	5.5	4.9

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
WEST AFRICA—Continued												
Ethiopia:												
Commitments:												
IBRD	23.5	4.9		23.5		4.8		13.5	27.6			10.8
IDA			13.5			7.2		7.7		6.6	9.5	38.7
Gross disbursements	19.5	2.8	2.0	4.6	6.8	11.4	10.1	7.4	8.4	11.4	12.7	16.7
Repayments	2.4	1.1	1.1	1.2	1.4	1.6	1.7	1.8	2.3	2.9	3.0	2.3
Net disbursements	17.1	1.7	.9	3.4	5.4	9.8	8.4	5.6	6.1	8.5	9.7	14.4
Interest and charges	3.6	.9	1.0	1.1	1.2	1.4	1.8	2.1	2.3	2.7	3.1	3.7
Net transfer	13.5	.8	−.1	2.3	4.2	8.4	6.6	3.5	3.8	5.8	6.6	10.7
Kenya:												
Commitments:												
IBRD	5.6	8.4								26.1	31.3	29.0
IDA					10.3		15.9	12.8	3.6	6.1	12.6	22.0
Gross disbursements	1.1	1.9	1.8	.8	.9	1.8	5.0	4.4	11.6	9.4	7.9	18.7
Repayments				.3	.7	.7	.8	.8	1.1	1.1	.7	.2
Net disbursements	1.1	1.9	1.8	.5	.2	1.1	4.2	3.6	10.5	8.3	7.2	18.5
Interest and harges		.1	.2	.3	.3	.3	.3	.3	.4	.5	.6	.8
Net transfer	1.1	1.8	1.6	.2	−.1	.8	3.9	3.3	10.1	7.8	6.6	17.7
Lesotho:												
Commitments: IDA						4.1						
Gross disbursements							1.3	1.8	1.1			
Repayments												
Net disbursements							1.3	1.8	1.1			
Interest and charges												
Net transfer							1.3	1.8	1.1			

Malagasy:												
Commitments:												
IBRD								4.8	6.3			
IDA						10.0			4.5	9.6	5.0	15.3
Gross disbursements								.9	2.1	5.6	6.9	3.8
Repayments												
Net disbursements								.9	2.1	5.6	6.9	3.8
Interest and charges										.1	.2	.4
Net transfer								.9	2.1	5.5	6.7	3.4
Niger:												
Commitments: IDA				1.5					6.1	.6	5.7	
Gross disbursements					.1	.1	.6	.9	1.5	2.0	2.1	
Repayments												
Net disbursements					.1	.1	.6	.9	1.5	2.0	2.1	
Interest and charges												
Net transfer					.1	.1	.6	.9	1.5	2.0	2.1	
Nigeria:												
Commitments:												
IBRD	28.0		13.5	30.0	82.0	32.0			20.5	35.6	97.2	119.6
IDA					35.5							
Gross disbursements	27.2	.8	.3	3.0	18.5	31.2	28.2	36.2	36.7	15.3	10.6	99.2
Repayments			1.1	1.2	1.3	1.3	2.7	3.1	3.3	4.6	5.4	6.5
Net disbursements	27.2	.8	−.8	1.8	17.2	29.9	25.5	33.1	33.4	10.7	5.2	92.7
Interest charges	2.8	1.7	1.5	1.5	1.9	3.0	4.5	5.7	7.1	8.5	9.4	10.9
Net transfer	24.4	−.9	−2.3	.3	15.3	26.9	21.0	27.4	26.3	2.2	−4.2	81.8
Senegal:												
Commitments:												
IBRD							4.0		3.5			6.4
IDA							9.0		6.0	2.1	7.1	11.2
Gross disbursements							.9	.9	3.5	4.4	2.4	3.6
Repayments											.2	.2
Net disbursements							.9	.9	3.5	4.4	2.2	3.4
Interest and charges									.1	.1	.3	.3
Net transfer							.9	.9	3.4	4.3	1.9	3.1

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
WEST AFRICA—Continued												
Sierra Leone:												
Commitments:												
IBRD					3.8				3.9		3.7	
IDA										3.0	3.5	4.3
Gross disbursements					2.5	.6	.6	.2	.1	1.1	2.1	1.1
Repayments							.1	.1	.2	.2	.2	.2
Net disbursements					2.5	.6	.5	.1	−.1	.9	1.9	.9
Interest and charges					.1	.2	.2	.2	.2	.2	.3	.3
Net transfer					2.4	.4	.3	−.1	−.3	.7	1.6	.6
Togo:												
Commitments: IDA									3.7			
Gross disbursements									.3	.9	1.2	.6
Repayments												
Net disbursements									.3	.9	1.2	.6
Interest and charges												
Net transfer									.3	.9	1.2	.6
Upper Volta:												
Commitments: IDA									.8		6.2	5.0
Gross disbursements												.5
Repayments												
Net disbursements												.5
Interest and charges												
Net transfer												.5

Total West Africa:												
Commitments:												
IBRD	136.5	47.0	13.5	33.3	97.8	34.7	41.0	7.6	138.0	78.7	142.1	144.5
IDA				1.5	42.2		29.1	10.6	34.9	53.6	40.3	78.8
Gross disbursements	54.2	38.0	43.7	23.4	37.3	49.4	40.8	52.4	69.8	56.1	72.0	169.8
Repayments	3.2		1.1	3.4	4.9	5.4	7.9	12.5	14.4	16.4	19.5	25.7
Net disbursements	51.0	38.0	42.6	20.0	32.4	44.0	32.9	39.9	55.4	39.7	52.5	144.1
nterest and charges	6.1	4.4	6.8	8.9	9.8	10.8	13.1	14.1	15.9	18.1	20.7	24.5
Net transfer	44.9	33.6	35.8	11.1	22.6	33.2	19.8	25.8	39.5	21.6	31.8	119.6
ASIA												
Burma:												
Commitments: IBRD	33.4											
Gross disbursements	17.1	3.7	2.4	5.2	3.2	1.2	.1	.2				
Repayments	1.6	1.0	1.0	1.4	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.1
Net disbursements	15.5	2.7	1.4	3.8	1.3	−.8	−2.0	−2.0	−2.3	−2.4	−2.5	−2.1
Interest and charges	2.2	.9	1.0	1.2	1.2	1.3	1.2	1.2	1.0	.9	.8	.7
Net transfer	13.3	1.8	.4	2.7	.1	−2.1	−3.2	+3.1	−3.3	−3.3	−3.3	−2.8
China:												
Commitments:												
IBRD				7.8	35.0		14.4	49.5	81.2	71.5	70.0	
IDA		15.3										
Gross disbursements		.8	3.7	4.0	8.7	13.6	12.4	6.2	12.8	29.3	32.2	55.7
Repayments							.5	1.2	2.2	3.1	4.7	6.9
Net disbursements		.8	3.7	4.0	8.7	13.6	11.9	5.0	10.6	26.2	27.5	48.8
Interest and charges				.1	.1	.5	1.4	1.9	2.3	3.8	5.9	8.7
Net transfer		.8	3.7	3.9	8.6	13.1	10.5	3.1	8.3	22.4	21.6	40.1
Fiji:												
Commitments: IBRD											11.8	2.2
Gross disbursements												.7
Repayments												
Net disbursements												.7
Interest and charges												.1
Net transfer												.6

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
ASIA—Continued												
India:												
Commitments:												
IBRD	701.5	145.5	30.0		134.0		30.0	25.0	40.5	40.0		60.0
IDA	60.0	62.0	178.0	90.0	95.0	191.0	215.0		152.5	227.5	243.4	412.2
Gross disbursements	558.6	74.1	108.2	120.1	188.6	211.6	243.6	212.7	166.5	56.9	122.5	138.5
Repayments	68.4	27.0	32.5	42.1	45.5	46.5	52.6	36.8	38.9	40.9	41.9	53.7
Net disbursements	490.2	47.1	75.7	78.0	143.1	165.1	191.0	175.9	127.6	16.0	80.6	84.8
Interest and charges	84.4	25.7	30.6	33.1	32.8	33.7	34.2	34.4	33.8	36.0	35.8	40.4
Net transfer	405.8	21.4	45.1	44.9	110.3	131.4	156.8	141.5	93.8	−20.0	44.8	44.4
Indonesia:												
Commitments: IDA									51.0	80.5	95.9	105.5
Gross disbursements									.3	2.6	17.7	26.6
Repayments												
Net disbursements									.3	2.6	17.7	26.6
Interest and charges												.2
Net transfer									.3	2.6	17.7	26.4
Korea:												
Commitments:												
IBRD								5.0	65.0	40.0	84.5	33.0
IDA			14.0					11.0	18.3	15.0	7.0	25.5
Gross disbursements				13.8	.2	.1			11.4	5.0	26.3	46.7
Repayments											.2	.7
Net disbursements				13.8	.2	.1			11.4	5.0	26.1	46.0
Interest and charges				.1	.1	.1	.1	.1	.2	.7	1.4	3.4
Net transfer				13.7	.1		.1	−.1	11.2	4.3	24.7	42.6

Malaysia:												
Commitments: IBRD	35.6			59.9		45.0	47.0	14.0	28.3	21.5	54.8	31.5
Gross disbursements	5.9	5.6	9.7	5.4	14.1	16.0	22.4	24.0	21.9	17.6	23.8	24.3
Repayments				.4	.8	1.0	1.2	2.3	3.3	3.5	6.1	6.4
Net disbursements	5.9	5.6	9.7	5.0	13.3	15.0	21.2	21.7	18.6	14.1	17.7	17.9
Interest and charges	.8	.5	.8	1.5	1.9	2.6	3.7	4.9	6.2	7.4	8.4	9.7
Net transfer	5.1	5.1	8.9	3.5	11.4	12.4	17.5	16.8	12.4	6.7	9.3	8.2
Nepal:												
Commitments: IDA										1.7	2.5	4.2
Gross disbursements											.1	.2
Repayments												
Net disbursements											.1	.2
Interest and charges												
Net transfer											.1	.2
Pakistan:												
Commitments:												
IBRD	256.5		43.0	62.0		30.0	35.0	35.0	154.5	19.2		
IDA		21.0	11.5	146.5	90.8	57.2	27.8	10.0	48.0	77.2	48.0	50.0
Gross disbursements	116.7	16.9	24.6	23.2	61.5	74.6	103.7	123.3	91.7	93.7	82.0	47.2
Repayments	24.6	6.4	8.7	9.9	11.0	13.0	16.1	16.0	18.3	20.9	24.4	25.9
Net disbursements	92.1	10.5	15.9	13.3	50.5	61.6	87.6	107.3	73.4	72.8	57.6	21.3
Interest and charges	19.4	5.2	5.9	6.8	7.3	8.6	9.6	11.4	14.6	18.9	22.4	24.6
Net transfer	72.7	5.3	10.0	6.5	43.2	53.0	78.0	95.9	58.8	53.9	35.2	−3.3
Papua and N.G.:												
Commitments:												
IBRD								7.0		4.5	23.2	10.0
IDA									1.5	9.5		9.2
Gross disbursements										1.6	3.0	9.6
Repayments												
Net disbursements										1.6	3.0	9.6
Interest and charges										.1	.1	.3
Net transfer										1.5	2.9	9.3

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR [1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
ASIA—Continued												
Philippines:												
Commitments:												
IBRD	20.8	42.5	18.7		26.2	5.0	37.0		12.5	59.0	22.3	29.5
IDA												10.0
Gross disbursements	17.3	4.5	8.5	6.9	18.3	13.1	14.1	16.4	19.2	20.5	20.7	16.8
Repayments	.5	.5	.5	.9	1.4	2.4	2.9	3.4	4.6	6.4	7.7	8.6
Net disbursements	16.8	4.0	8.0	6.0	16.9	10.7	11.2	13.0	14.6	14.1	13.0	8.2
Interest and charges	2.5	1.2	1.6	2.1	2.4	3.5	4.0	4.7	5.4	7.0	7.6	9.0
Net transfer	14.3	2.8	6.4	3.9	14.5	7.2	7.2	8.3	9.2	7.1	5.4	−.8
Singapore:												
Commitments: IBRD			15.0		6.8		25.0	26.0	26.5	16.0		9.5
Gross disbursements				2.1	7.8	3.4	14.6	6.4	12.4	17.7	20.8	10.6
Repayments							.6	.9	1.0	1.3	1.9	2.7
Net disbursements				2.1	7.8	3.4	14.0	5.5	11.4	16.4	18.9	7.9
Interest and charges				.1	.3	.6	.8	1.9	2.2	3.0	4.3	5.1
Net transfer				2.0	7.5	2.8	13.2	3.6	9.2	13.4	14.6	2.8
Sri Lanka:												
Commitments:												
IBRD	41.5							4.0	4.9	43.5		
IDA								2.0	4.9	17.0		
Gross disbursements	17.1	5.3	5.2	3.8	2.4	2.0	1.3	.2	.7	1.8	3.6	7.6
Repayments	1.2	.8	.9	.9	1.4	1.4	1.4	1.4	1.6	1.6	1.8	2.0
Net disbursements	15.9	4.4	4.3	2.9	1.0	.6	−.1	−1.2	−.9	.2	1.8	5.6
Interest and charges	2.7	.9	1.2	1.4	1.5	1.5	1.5	1.5	1.4	1.5	1.6	1.8
Net transfer	13.2	3.6	3.1	1.5	−.5	.9	−1.6	−2.7	−2.3	−1.3	.2	3.8

Thailand:												
Commitments: IBRD	128.8		50.6	2.5	28.0	36.0	11.0	55.0	23.0	46.5	12.5	42.4
Gross disbursements	71.7	14.6	13.8	13.1	11.8	17.1	23.3	25.8	33.4	27.2	22.3	25.0
Repayments	12.1	2.7	2.8	4.9	5.9	6.6	6.2	6.6	8.4	8.8	10.0	8.3
Net disbursements	59.6	11.9	11.0	8.2	5.9	10.5	17.1	19.2	25.0	18.4	12.3	16.7
Interest and charges	13.6	3.6	4.2	4.9	5.4	5.7	6.3	7.3	8.7	10.3	11.7	12.7
Net transfer	46.0	8.3	6.8	3.3	.5	4.8	10.8	11.9	16.3	8.1	.6	4.0
Total Asia:												
Commitments:												
IBRD	1,218.1	188.0	157.3	132.2	230.0	116.0	199.4	220.5	436.4	361.7	279.1	218.1
IDA	60.0	98.3	203.5	236.5	185.8	248.2	242.8	23.0	276.2	428.4	396.8	616.6
Gross disbursements	804.4	125.5	176.1	197.6	316.6	352.7	435.5	415.2	370.3	273.9	375.0	409.5
Repayments	108.4	38.4	46.4	60.5	67.9	72.9	83.6	70.8	80.6	88.9	101.2	117.3
Net disbursements	696.0	87.1	129.7	137.1	248.7	279.8	351.9	344.4	289.7	185.0	273.8	292.2
Interest and charges	125.6	38.0	45.3	51.2	53.0	58.1	62.8	69.2	75.8	89.6	100.0	116.7
Net transfer	570.4	49.1	84.4	85.9	195.7	221.7	289.1	275.2	213.9	95.4	173.8	175.5
E.M.E. and N.A.												
Afghanistan:												
Commitments: IDA					3.5				5.0	5.0	5.0	
Gross disbursements								.2			.6	2.8
Repayments												
Net disbursements								.2			.6	2.8
Interest and charges												
Net transfer								.2			.6	2.8
Algeria:												
Commitments: IBRD	60.0				20.5							
Gross disbursements	60.0				20.5							
Repayments	3.9	5.0	5.0	5.0	5.0	5.8	6.6	6.7	6.8	7.0	7.1	5.0
Net disbursements	56.1	−5.0	−5.0	−5.0	15.5	−5.8	−6.6	−6.7	−6.8	−7.0	−7.1	−5.0
Interest and charges	6.5	3.1	2.9	2.6	3.1	3.2	2.8	2.4	2.0	1.7	1.3	.8
Net transfer	49.6	−8.1	−7.9	−7.6	12.4	−9.0	−9.4	−9.1	−8.8	−8.7	−8.4	−5.8

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
E.M.E. and N.A.—Continued												
Cyprus:												
Commitments: IBRD			21.0				2.8		11.5	5.0	5.4	12.0
Gross disbursement				2.2	4.4	6.0	2.6	.1	1.9	.3	2.2	4.1
Repayments							.3	.6	.6	.7	.9	.9
Net disbursements				2.2	4.4	6.0	2.3	−.5	1.3	−.4	1.3	3.2
Interest and charges				.2	.3	.5	.7	.8	.8	.9	.9	1.1
Net transfer				2.0	4.1	5.5	1.6	−1.3	.5	−1.3	.4	2.1
Egypt:												
Commitments: IDA	56.5									26.0		30.0
Gross disbursements	36.6	13.1	6.8									.4
Repayments		1.3	2.8	3.3	3.8	4.0	4.0	4.0	4.0	4.8	5.5	5.5
Net disbursements	36.6	11.8	4.0	−3.3	−3.8	−4.0	−4.0	−4.0	−4.0	−4.8	−5.5	−5.1
Interest and charges	1.9	2.4	3.0	3.1	2.9	2.7	2.5	2.2	2.0	1.8	1.5	1.2
Net transfer	34.7	9.4	1.0	−6.4	−6.7	−6.7	−6.5	−6.2	−6.0	−6.6	−7.0	−6.3
Greece:												
Commitments: IBRD								12.5		20.0	38.8	25.0
Gross disbursements									1.6	6.6	10.2	10.0
Repayments										.2	.7	1.3
Net disbursements									1.6	6.4	9.5	8.7
Interest and charges									.1	.2	.7	1.6
Net transfer									1.5	6.2	8.8	7.1
Iran:												
Commitments: IBRD	194.2			18.5	40.5	10.0	25.0	47.0	70.0	48.5	165.0	125.0
Gross disbursements	126.4	31.7	27.1	4.3	3.3	11.2	15.7	21.6	18.8	25.1	43.3	59.1
Repayments	43.8	25.2	15.6	5.4	4.7	5.0	5.4	6.6	8.9	12.8	13.6	17.4

Net disbursements	83.6	6.5	11.5	−1.1	−1.4	6.2	10.3	15.0	9.9	12.3	29.7	41.7
Interest and charges	15.0	5.3	5.2	6.2	6.1	6.2	6.7	7.3	8.1	9.4	11.0	14.2
Net transfer	68.6	1.2	5.8	−7.3	−7.5		3.6	7.7	1.8	2.9	18.7	27.5
Iraq:												
Commitments: IBRD	12.8						23.0					40.4
Gross disbursements	6.3						3.7	4.4	1.2	2.2	2.5	.7
Repayments	6.3										.7	.7
Net disbursements							3.7	4.4	1.2	2.2	1.8	
Interest and charges	.2							.3	.5	.7	.8	.9
Net transfer	−.2						3.7	4.1	.7	1.5	1.0	−.9
Ireland:												
Commitments: IBRD									14.5		30.0	28.0
Gross disbursements										2.1	5.1	5.5
Repayments												
Net disbursements										2.1	5.1	5.5
Interest and charges										.1	.4	1.0
Net transfer										2.0	4.7	4.5
Israel:												
Commitments: IBRD	27.5	25.0	22.0			20.0		15.0		25.0	20.0	30.0
Gross disbursements	.8	3.1	17.7	10.8	19.4	24.2	14.2	3.7	5.4	5.9	7.4	14.6
Repayments						.7	3.1	4.4	6.0	6.3	8.0	9.2
Net disbursements	.8	3.1	17.7	10.8	19.4	23.5	11.1	−.7	−.6	−.4	−.6	5.4
Interest and charges	.1	.4	.9	1.7	2.3	3.3	4.5	4.9	4.9	4.9	5.1	5.7
Net transfer	.7	2.7	16.8	9.1	17.1	20.2	6.6	−5.6	−5.5	−5.3	−5.7	−.3
Jordan:												
Commitments: IDA		2.0		6.5			3.0				6.0	5.4
Gross disbursements				.7	2.2	1.8	1.3	1.7	.7	.5	.3	1.7
Repayments												
Net disbursements				.7	2.2	1.8	1.3	1.7	.7	.5	.3	1.7
Interest and charges								.1	.1	.1	.1	.1
Net transfer				.7	2.2	1.8	1.3	1.6	.6	.4	.2	1.6

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
E.M.E. and N.A.—Continued												
Lebanon:												
Commitments: IBRD	27.0											
Gross disbursements	11.3	3.1	2.3	4.6	4.0	1.7						
Repayments		.9	.9	.6	.2	.3	1.2	1.3	1.3	1.4	1.4	1.5
Net disbursements	11.3	2.2	1.4	4.0	3.8	1.4	−1.2	−1.3	−1.3	−1.4	−1.4	−1.5
Interest and charges	1.7	.7	.7	.8	.9	1.1	1.1	1.1	1.0	1.0	.9	.8
Net transfer	9.6	1.5	.7	3.2	2.9	.3	−2.3	−2.4	−2.3	−2.4	−2.3	−2.3
Malta:												
Commitments: IBRD				7.5								
Gross disbursements				.3	1.9	2.7	.5	.6				
Repayments						.1	.3	.3	.3	.3	.3	.4
Net disbursements				.3	1.9	2.6	.2	.3	−.3	−.3	−.3	−.4
Interest and charges					.1	.2	.3	.3	.3	.3	.3	.1
Net transfer				.3	1.8	2.4	−.1		−.6	−.6	−.6	−.5
Morocco:												
Commitments:												
IBRD			15.0		17.5	27.5			15.0	68.3	45.0	39.0
IDA						11.0				7.3		18.5
Gross disbursements				2.6	4.9	10.3	9.7	7.0	16.3	13.6	18.6	30.4
Repayments					.3	.5	.8	1.3	3.8	4.3	5.0	5.1
Net disbursements				2.6	4.6	9.8	8.9	5.7	12.5	9.3	13.6	25.3
Interest and charges					.1	.6	1.1	1.6	2.0	2.8	3.7	4.5
Net transfer				2.6	4.5	9.2	7.8	4.1	10.5	6.5	9.9	20.8

Portugal:										
Commitments: IBRD		12.5	15.0	30.0						
Gross disbursements		3.3	5.8	4.8	16.4	10.3	8.7	6.1	1.9	.3
Repayments				.2	.2	.4	1.2	1.6	2.1	2.6
Net disbursements		3.3	5.8	4.6	16.2	9.9	7.5	4.5	−.2	−2.3
Interest and charges			.3	.7	1.2	2.0	2.4	2.9	3.0	3.0
Net transfer		3.3	5.5	3.9	15.0	7.9	5.1	1.6	−3.2	−5.3
Spain:										
Commitments: IBRD		33.0	65.0	40.0		50.0		37.0	102.7	50.0
Gross disbursements			1.7	23.7	44.1	27.5	39.9	22.4	10.5	19.9
Repayments							3.9	5.7	6.0	9.4
Net disbursements			1.7	23.7	44.1	27.5	36.0	16.7	4.5	10.5
Interest and charges		.1	.3	.7	2.5	4.5	6.3	8.1	9.0	10.0
Net transfer		−.1	1.4	23.0	41.6	23.0	29.7	8.6	−4.5	.5
Syria:										
Commitments: IDA		8.5								13.8
Gross disbursements				.2	.1	.3	.3	1.7	2.4	1.9
Repayments										
Net disbursements				.2	.1	.3	.3	1.7	2.4	1.9
Interest and charges										.1
Net transfer				.2	.1	.3	.3	1.7	2.4	1.8
Tunisia:										
Commitments:										
IBRD		7.0		5.0	12.0	10.0	32.8	10.0	31.5	41.0
IDA	5.0				19.0		8.5	10.5	4.8	15.0
Gross disbursements		.5	2.4	3.4	5.7	8.0	7.2	10.7	15.3	19.8
Repayments						.3	.5	.9	1.3	2.1
Net disbursements		.5	2.4	3.4	5.7	7.7	6.7	9.8	14.0	17.7
Interest and charges				.1	.2	.6	.9	1.4	1.9	2.9
Net transfer		.5	2.4	3.3	5.5	7.1	5.8	8.4	12.1	14.8

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
E.M.E. and N.A.—Continued												
Turkey:												
Commitments:												
IBRD	63.4						10.0		73.5		94.5	137.0
IDA			26.7		39.0		15.0		12.0		19.5	36.3
Gross disbursements	60.4	.2	.3	4.7	6.7	15.4	20.0	21.2	17.5	20.5	33.2	21.8
Repayments	12.0	3.6	3.8	4.0	4.2	3.7	3.3	3.5	2.9	2.5	3.4	4.5
Net disbursements	48.4	−3.5	−3.5	.7	2.5	11.7	16.7	17.7	14.6	18.0	29.8	17.3
Interest and charges	15.8	2.2	2.0	1.8	1.7	1.6	1.5	1.7	2.0	3.0	3.9	5.9
Net transfer	32.6	−5.6	−5.5	−1.1	.8	10.1	15.2	16.0	12.6	15.0	25.9	11.4
Yemen Arab Republic:												
Commitments: IDA												7.7
Gross disbursements												
Repayments												
Net disbursements												
Interest and charges												
Net transfer												
Yemen PDR of:												
Commitments: IDA											1.6	
Gross disbursements												.4
Repayments												
Net disbursements												.4
Interest and charges												
Net transfer												.4
Yugoslavia:												
Commitments: IBRD	90.7		65.0	35.0	70.0		10.0	60.5	46.0	98.5	110.0	75.0

Gross disbursements	60.7	11.5	9.8	35.6	39.8	25.1	20.0	15.4	24.1	34.9	42.1	49.8
Repayments	12.7	2.0	2.1	2.2	2.7	3.2	5.4	6.1	6.9	8.5	10.7	12.0
Net disbursements	48.0	9.5	7.7	33.4	37.1	21.9	14.6	9.3	17.2	26.4	31.4	37.8
Interest and charges	18.5	2.4	3.0	4.1	5.8	7.8	8.8	9.4	10.5	11.9	14.3	16.3
Net transfer	29.5	7.1	4.7	29.3	31.3	14.1	5.8	−.1	6.7	14.5	17.1	21.5
Total E.M.E. and N.A.:												
Commitments:												
IBRD	532.1	25.0	123.0	134.0	208.0	132.5	82.8	195.0	263.3	312.3	642.9	602.4
IDA		2.0	31.7	15.0	42.5	11.0	37.0		25.5	48.8	36.9	126.7
Gross disbursements	362.5	62.7	64.0	69.6	117.0	130.5	154.0	122.0	143.6	152.6	195.6	243.2
Repayments	77.7	38.0	30.2	20.5	20.9	23.5	30.6	35.5	47.1	57.0	66.7	77.6
Net disbursements	284.8	24.7	33.8	49.1	96.1	107.0	123.4	86.5	96.5	95.6	128.9	165.6
Interest and charges	59.7	16.5	18.2	20.6	23.9	28.7	33.9	39.2	43.9	51.2	58.8	70.2
Net transfer	225.1	8.2	15.6	28.5	72.2	78.3	89.5	47.3	52.6	44.4	70.1	95.4
LATIN AMERICA AND CARIBBEAN												
Argentina:												
Commitments: IBRD	48.5	95.0						70.3	107.0	60.0	151.5	
Gross disbursements		5.9	47.5	36.0	17.1	5.2	4.2	7.0	28.5	44.0	31.6	44.9
Repayments					1.1	4.5	4.3	4.5	4.8	4.9	6.2	7.3
Net disbursements		5.9	47.5	36.0	16.0	.7	−.1	2.5	23.7	39.1	25.4	37.6
Interest and charges			1.6	3.9	5.6	6.1	6.1	6.1	6.9	9.6	12.0	14.7
Net transfer		5.9	45.9	32.1	10.4	−5.4	−6.2	−3.6	16.8	29.5	13.4	22.9
Bolivia												
Commitments:												
IBRD										23.3		
IDA					15.0		2.0		7.4	1.4	6.8	
Gross disbursements					2.2	5.7	5.0	.9	1.2	1.7	2.2	25.0
Repayments												
Net disbursements					2.2	5.7	5.0	.9	1.2	1.7	2.2	25.0
Interest and charges							.1	.1	.1	.1	.1	.7
Net transfer					2.2	5.7	4.9	.8	1.1	1.6	2.1	24.3

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR [1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
LATIN AMERICA AND CARIBBEAN—Continued												
Brazil:												
Commitments: IBRD	292.1				79.5	49.0	100.6	62.0	74.9	205.0	160.4	437.0
Gross disbursements	218.7	20.2	15.1	8.2	4.1	1.7	5.1	17.8	28.3	66.1	75.0	136.6
Repayments	44.3	9.4	8.0	12.0	13.8	14.8	14.3	13.0	14.9	12.4	11.9	23.2
Net disbursements	174.4	10.8	7.1	−3.8	−9.7	−13.1	−9.2	4.8	13.4	53.7	63.1	113.4
Interest and charges	67.6	9.3	8.4	10.0	9.6	10.1	8.7	9.1	9.9	11.5	15.8	21.8
Net transfer	106.8	1.5	−1.3	−13.8	−19.3	−23.2	−17.9	−4.3	3.5	42.2	47.3	91.6
Chile:												
Commitments:												
IBRD	112.6			24.0	4.4	2.8	60.0		11.6	19.3		
IDA	19.0											
Gross disbursements	61.1	6.5	12.8	8.5	10.2	20.4	14.3	19.6	11.5	17.6	28.1	11.9
Repayments	12.5	2.9	4.9	5.2	5.3	4.9	5.5	5.9	8.7	9.0	7.7	6.3
Net disbursements	48.6	3.6	7.9	3.3	4.9	15.5	8.8	13.7	2.8	8.6	20.4	5.6
Interest and charges	13.8	2.9	3.1	3.4	3.6	4.0	4.6	5.1	5.4	5.9	6.8	5.8
Net transfer	34.8	.7	4.8	−.1	1.3	11.5	4.2	8.6	−2.6	2.7	13.6	−.2
Colombia:												
Commitments:												
IBRD	200.7	69.5	68.8	50.0		41.7	25.0	44.5	103.1	127.6	153.1	65.0
IDA		19.5										
Gross disbursements	128.6	29.2	34.5	50.1	47.3	35.4	33.7	38.7	39.1	40.2	66.9	61.5
Repayments	45.7	5.8	6.2	6.1	5.2	8.5	11.1	12.8	14.8	16.0	18.2	18.3

Net disbursements	82.9	23.4	28.3	44.0	42.1	27.1	22.6	25.9	24.3	24.2	48.7	43.2
Interest and charges	24.0	5.1	6.4	8.6	10.9	12.5	13.7	15.0	16.8	18.9	21.8	25.7
Net transfer	58.9	18.3	21.9	35.4	31.2	14.6	8.9	10.9	7.5	5.3	26.9	17.5
Costa Rica:												
Commitments:												
IBRD	17.3	8.5		22.0				3.0		34.2		33.0
IDA		4.4										
Gross disbursements	6.9	5.3	4.9	6.0	8.5	10.2	7.7	3.0		2.2	8.7	9.0
Repayments	2.1	1.2	1.3	1.3	1.6	1.5	1.1	1.8	1.9	2.0	2.0	2.1
Net disbursements	4.8	4.1	3.6	4.7	6.9	8.7	6.6	1.2	−1.9	.2	6.7	6.9
Interest and charges	.7	.4	.7	.9	1.1	1.4	1.8	2.0	2.0	2.0	2.3	2.8
Net transfer	4.0	3.7	2.9	3.8	5.8	7.3	4.8	−.8	−3.9	−1.8	4.4	4.1
Dominican Republic:												
Commitments:												
IBRD										25.0		
IDA											9.0	
Gross disbursements										1.7	18.1	5.3
Repayments												
Net disbursements										1.7	18.1	5.3
Interest and charges										.1	.8	1.7
Net transfer										1.6	17.3	3.6
Ecuador:												
Commitments:												
IBRD	45.6			9.0			4.0		5.3		8.0	
IDA				8.0				5.1		1.5	10.0	6.8
Gross disbursements	32.2	7.0	5.6	.1	2.3	.9	1.7	2.5	4.0	4.4	3.3	4.1
Repayments	3.7	1.9	2.6	2.9	1.5	1.6	1.7	1.8	1.9	2.2	2.3	3.5
Net disbursements	28.5	5.1	3.0	−2.8	.8	−.7		.7	2.1	2.2	1.0	1.6
Interest and charges	3.6	1.7	1.9	2.0	1.9	1.9	1.9	1.9	1.9	2.0	2.0	2.0
Net transfer	24.9	3.4	1.1	−4.8	−1.1	−2.6	−1.9	−1.2	.2	.2	−1.0	−.4

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
LATIN AMERICA AND CARIBBEAN—Continued												
El Salvador:												
Commimens:												
IBRD	35.5		6.0	9.5				2.8	4.9			9.5
IDA			8.0								5.6	
Gross disbursements	27.6	2.9	2.9	1.	7.1	7.7	5.6	1.8	.5	.7	1.6	3.4
Repayments	5.6	1.9	2.2	2.5	2.6	2.7	2.2	1.7	2.0	2.1	2.2	2.4
Net disbursements	22.0	1.0	.7	−.7	4.5	5.0	3.4	.1	−1.5	−1.4	−.6	1.0
Interest and charges	6.7	1.1	1.1	1.2	1.2	1.4	1.5	1.6	1.6	1.6	1.5	1.5
Net transfer	15.3	−.1	−.4	−1.9	3.3	3.6	1.9	−1.5	−3.1	−3.0	−2.1	−.5
Guatemala:												
Commitments: IBRD	18.2						15.0	7.0	6.3		4.0	16.0
Gross disbursements	18.2							2.8	4.7	3.5	4.8	3.2
Repayments	3.0	1.3	1.4	1.4	1.5	1.6	1.6	1.7	1.8	1.9	1.1	.5
Net disbursements	15.2	−1.3	−1.4	−1.4	−1.5	−1.6	−1.6	1.1	2.9	1.6	3.7	2.7
Interest and charges	3.1	.7	.6	.6	.5	.4	.3	.3	.4	.7	.9	1.2
Net transfer	12.1	−2.0	−2.0	−2.0	−2.0	−2.0	−1.9	.8	2.5	.9	2.8	1.5
Guyana:												
Commitments:												
IBRD	1.3								7.9		5.4	
IDA									2.9		2.2	4.4
Gross disbursements		.2		.7						.4	1.3	2.0
Repayments				.1	.1	.1	.2	.2	.2	.1	.1	
Net disbursements		.2		.6	−.1	−.1	−.2	−.2	−.2	.3	1.2	2.0
Interest and charges					.1					.1	.1	.2
Net transfer		.2		.6	−.2	−.1	−.2	−.2	−.2	.2	1.1	1.8

Haiti:											
Commitments: IDA	2.6		.4								
Gross disbursements	2.2	.3	.4	.1							
Repayments		.4	.4	.2	.2	.2	.3	.2	.2	.2	.2
Net disbursements	2.2	−.1		−.1	−.2	−.2	−.3	−.2	−.2	−.2	−.2
Interest and charges	.2	.1	.1	.1	.1	.1	.1	.1			
Net transfer	2.0	−.2	−.1	−.2	−.3	−.3	−.4	−.3	−.2	−.2	−.2
Honduras:											
Commitments:											
IBRD	20.0				6.0		13.4	7.5		5.5	6.0	12.3
IDA	9.0				3.5			4.0		8.1		
Gross disbursements	9.1	2.8	7.5	4.7	1.1	1.9	1.7	1.9	6.4	12.1	9.1	6.1
Repayments	2.2	.8	.9	1.1	.9	.6	.6	.6	.7	.7	.9	1.5
Net disbursements	6.9	2.0	6.6	3.6	.2	1.3	1.1	1.3	5.7	11.4	8.2	4.6
Interest and charges	.9	.5	.6	.8	.8	.8	.9	.9	1.0	1.3	1.8	2.2
Net transfer	6.0	1.5	6.0	2.8	−.6	.5	.2	.4	4.7	10.1	6.4	2.4
Jamaica:											
Commitments: IBRD					5.5	22.0	20.7		5.0	2.0	17.2	
Gross disbursements							7.4	8.7	5.4	6.8	5.1	4.0
Repayments										.4	1.0	1.1
Net disbursements							7.4	8.7	5.4	6.4	4.1	2.9
Interest and charges							.1	.7	1.1	1.4	1.8	2.1
Net transfer							7.3	8.0	4.3	5.0	2.3	.8
Mexico:											
Commitments: IBRD	245.8	160.5	12.5	40.0	32.0	154.0		142.5	65.0	146.8	75.0	277.0
Gross disbursements	174.7	10.0	50.7	85.7	57.6	67.0	62.4	72.2	62.6	83.1	108.2	116.2
Repayments	27.9	6.7	9.2	10.9	16.7	19.1	20.8	24.0	25.4	27.7	22.5	25.9
Net disbursements	146.8	3.3	41.5	74.8	40.9	47.9	41.6	48.2	37.2	55.4	86.2	90.3
Interest and charges	46.4	7.4	8.7	12.4	15.2	17.3	20.6	23.0	25.9	30.2	33.7	39.6
Net transfer	100.4	−4.1	32.8	62.4	25.7	30.6	21.0	25.2	11.3	25.2	52.5	50.7

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
LATIN AMERICA AND CARIBBEAN—Continued												
Nicaragua:												
Commitments:												
IBRD	35.5		2.6				5.0	19.3				30.9
IDA			3.0									
Gross disbursements	22.9	1.6	2.8	4.7	4.9	1.1	4.0	0.9	1.0	3.4	6.6	5.7
Repayments	9.6	1.7	1.4	1.1	0.7	1.1	1.2	1.2	1.3	1.5	1.5	1.4
Net disbursements	13.3	−0.1	1.4	3.6	4.2		2.8	−0.3	−0.3	1.9	5.1	4.3
Interest and charges	3.8	0.7	0.7	0.9	1.0	1.1	1.1	1.3	1.4	1.4	1.8	2.1
Net transfer	9.5	−0.8	0.7	2.7	3.2	−1.1	1.7	−1.6	−1.7	0.5	3.3	2.2
Panama:												
Commitments: IBRD	14.6		4.0							42.0		23.4
Gross disbursements	6.8	1.7	2.5	2.6	1.0	2.1	0.7	0.4			0.4	7.6
Repayments	6.8				0.5	0.7	0.3	0.7	0.8	0.7	0.7	0.9
Net disbursements		1.7	2.5	2.6	0.5	1.4	0.4	−0.3	−0.8	−0.7	−0.3	6.7
Interest and charges	0.6	0.1	0.2	0.4	0.3	0.6	0.3	0.5	0.6	0.5	0.6	1.0
Net transfer	−0.6	1.6	2.3	2.2	0.2	0.8	0.1	−0.8	−1.4	−1.2	−0.9	5.7
Paraguay:												
Commitments:												
IBRD	5.0				2.2	4.9			4.3	6.0		
IDA		6.0		3.6		7.5			4.3			
Gross disbursements	4.5		0.1	0.1	1.2	3.0	4.2	6.8	4.6	3.6	3.7	2.9
Repayments	2.7	0.5	0.5	0.5	0.3						0.2	0.2
Net disbursements	1.8	−0.5	−0.4	−0.4	0.9	3.0	4.2	6.8	4.6	3.6	3.5	2.7
Interest and charges	0.9	0.1	0.1					0.2	0.2	0.4	0.5	0.7
Net transfer	0.9	−0.6	−0.5	−0.4	0.9	3.0	4.2	6.6	4.4	3.2	3.0	2.0

Peru:												
Commitments: IBRD	97.0	10.0	13.3	18.1	26.0	42.1	10.0	17.5			30.0	
Gross disbursements	45.5	10.4	13.2	20.8	15.6	19.9	22.5	12.0	10.6	8.8	12.5	11.3
Repayments	12.4	3.6	4.0	3.9	4.4	4.6	5.2	6.0	5.4	7.7	7.4	7.3
Net disbursements	33.1	6.8	9.2	16.9	11.2	15.3	17.3	6.0	5.2	1.1	5.1	4.0
Interest and charges	8.0	2.1	2.5	3.2	3.9	4.7	5.7	6.5	6.6	7.1	7.1	7.6
Net transfer	25.1	4.7	6.7	13.7	7.3	10.6	11.6	−.5	−1.4	−6.0	−2.0	−3.6
Trinidad:												
Commitments: IBRD		23.5					13.6		11.4		3.0	2.0
Gross disbursements		1.4	4.5	6.5	3.2	2.3	1.3	2.9	1.2	3.0	4.3	6.9
Repayments						.5	1.0	1.0	1.1	.9	1.0	1.3
Net disbursements		1.4	4.5	6.5	3.2	1.8	.3	1.9	.1	2.1	3.3	5.6
Interest and charges		−.1	.2	.5	.8	.9	1.0	1.1	1.2	1.3	1.4	1.6
Net transfer		1.3	4.3	6.0	2.4	.9	−.7	.8	−1.1	.8	1.9	4.0
Uruguay:												
Commitments IBRD	71.0		18.5		12.7					6.3	22.0	11.2
Gross disbursements	62.4	1.3	3.2	1.7	3.4	5.2	9.1	7.9	3.4	2.2	5.1	9.0
Repayments	11.5	2.7	2.7	2.9	3.5	3.8	4.5	5.3	5.4	5.9	6.5	6.3
Net disbursements	50.9	−1.4	.5	−1.2	−.1	1.4	4.6	2.6	−2.0	−3.7	−1.4	2.7
Interest and charges	14.0	2.4	2.4	2.6	2.5	2.5	2.6	2.9	2.9	2.8	2.7	2.8
Net transfer	36.9	−3.8	−1.9	−3.8	−2.6	−1.1	2.0	−.3	−4.9	−6.5	−4.1	−.1
Venezuela:												
Commitments: IBRD		45.0		85.0	44.0	58.3	15.0		51.0		35.0	28.0
Gross disbursements			6.6	21.8	26.7	34.9	51.0	50.2	30.5	13.7	10.4	14.6
Repayments						.8	1.7	3.4	6.7	8.3	10.2	10.7
Net disbursements			6.6	21.8	26.7	34.1	49.3	46.8	23.8	5.4	.2	3.9
Interest and charges		.1	.2	1.5	2.0	3.8	6.1	8.6	11.8	11.3	12.7	13.0
Net transfer		−.1	6.4	20.3	24.7	30.3	43.2	38.2	12.0	−5.9	−12.5	−9.1

See footnotes at end of table.

IBRD AND IDA: LENDING TO DEVELOPING COUNTRIES BY FISCAL YEAR[1]—Continued

[In millions of dollars]

	Through 1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
LATIN AMERICA AND CARIBBEAN—Continued												
Total Latin American and Caribbean:												
Commitments:												
IBRD	1,264.3	412.0	125.7	257.6	212.3	374.8	282.3	376.4	457.7	703.0	670.6	945.3
IDA	28.0	31.0	11.4	11.6	18.5	7.5	2.0	9.1	14.6	11.0	33.6	11.2
Gross disbursements	821.4	106.7	214.8	260.1	213.5	224.6	241.6	258.0	243.5	319.2	407.5	491.2
Repayments	190.0	40.8	45.7	52.1	59.9	71.4	77.6	85.6	98.0	104.6.	103.8	119.4
Net disbursements	631.4	65.9	169.1	208.0	153.6	153.2	164.0	172.4	145.5	214.6	303.7	371.8
Interest and charges	194.3	34.8	39.5	53.0	61.1	77.2	86.9	97.8	97.8	110.2	128.2	150.8
Net transfer	437.1	31.1	129.6	155.0	92.5	83.6	86.8	85.5	47.7	104.4	175.5	221.0
Grand total:												
Commitments:												
IBRD	3,557.5	685.3	423.7	587.6	755.9	731.8	638.8	847.0	1,377.2	1,580.4	1,868.0	1,958.1
IDA	101.0	134.1	260.1	283.2	309.1	284.1	353.6	106.6	385.0	605.7	584.1	999.8
Gross disbursements	2,340.5	360.5	519.9	574.3	718.6	796.8	914.8	904.4	896.7	879.1	1,137.9	1,426.6
Repayments	405.8	128.9	139.2	154.8	171.6	192.2	219.9	225.8	263.7	291.2	317.5	365.9
Net disbursements	1,934.7	231.6	380.7	419.5	547.0	604.6	694.9	678.6	633.0	587.9	820.4	1,060.7
Interest and charges	444.9	108.2	125.4	149.2	163.1	183.0	203.4	226.1	251.2	288.8	329.6	387.0
Net transfer	1,489.8	123.4	255.3	270.3	383.9	421.6	491.5	452.5	381.8	299.1	490.8	673.7

[1] Transactions relating to loans to pt. II countries guaranteed by pt. I countries are included. Loans to countries which are pt. I members of IDA and to New Zealand are excluded.

[2] Net transfer indicates disbursements net of repayments and loan charges paid to the Bank and third parties (the latter as a result of loan sales).

[4] Commitments for Burundi, Egypt, and Haiti through fiscal year 1961 were IBRD loans.

[3] Amounts shown against Burundi and Ivory Coast include loans made to former Ruanda-Urundi and former French West Africa, respectively.

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made □program or project	Development Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange adjustments[1]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[2]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
AFGHANISTAN #AFG#													
EDUCATION PROJECT	68	A/O 15	NOV. 23, 1964	1974-2014	3/4%	3,500,000.00	23,888.59	3,522,687.38		1,201.21	1,201.21		68
HIGHWAY PROJECT	158	J/D 15	JUNE 26, 1969	1979-2018	3/4%	9,000,000.00	509,001.29			9,509,001.29	9,640,519.61	1,868,481.68	158
AGRICULTURAL DEVELOPMENT BANK PROJECT	202	J/D 15	JUNE 24, 1970	1980-2019	3/4%	5,000,000.00	290,301.80			5,290,301.80	2,390,552.64	2,899,749.16	202
KHANABAD IRRIGATION PROJECT	248	J/D 15	JUNE 11, 1971	1981-2020	3/4%	5,000,000.00	33,333.30			5,033,333.30	373,333.30	4,660,000.00	248
AVIATION PROJECT	274	J/D 15	MAY 2, 1973	1983-2022	3/4%	2,500,000.00 1/							274
LIVESTOCK DEVELOPMENT PROJECT	275	J/D 15	MAY 2, 1973	1983-2022	3/4%	9,000,000.00 1/							275
INDUSTRIAL DEVELOPMENT BANK PROJECT	288	F/A 1	MAY 15, 1973	1983-2023	3/4%	2,000,000.00 1/							288
					TOTAL	32,000,000.00	856,724.98	3,522,687.38		15,834,037.60	6,405,586.76	9,428,450.84	AF
AUSTRALIA													
PAPUA NEW GUINEA #PNG#													
AGRICULTURAL CREDIT PROJECT	137	M/S 1	JAN. 21, 1969	1979-2019	3/4%	1,500,000.00	247,006.71			1,747,006.71	1,565,144.31	181,862.40	137
AGRICULTURAL DEVELOPMENT PROJECT	179	J/D 15	JAN. 30, 1970	1979-2019	3/4%	5,000,000.00	516,888.50			5,516,888.50	3,866,373.53	1,650,516.97	179
HIGHWAY PROJECT	204	J/D 15	JUNE 24, 1970	1980-2020	3/4%	4,500,000.00	928,549.49			5,428,549.49	5,428,549.49		204
PORTS	326	A/O 15	JULY 21, 1972	1982-2022	3/4%	9,200,000.00				9,200,000.00		9,200,000.00	326
SMALLHOLDER LIVESTOCK CREDIT PROJECT	348	M/S 1	JAN. 4, 1973	1983-2022	3/4%	5,000,000.00				5,000,000.00		5,000,000.00	348
					TOTAL	25,200,000.00	1,694,444.70			26,894,444.70	10,860,065.33	16,034,379.37	PNG
BANGLADESH #BDG#													
COASTAL AREA REHABILITATION & CYCLONE PROTECTION PROJ.	339	A/O 15	OCT. 18, 1972	1982-2022	3/4%	25,000,000.00				25,000,000.00		25,000,000.00	339
CHANDPUR II IRRIGATION PROJECT	340	M/N 1	OCT. 18, 1972	1982-2022	3/4%	13,000,000.00	129,923.28			13,129,923.28	979,017.45	12,150,905.83	340
NORTHWEST REGION TUBEWELLS PROJECT	341	A/O 1	NOV. 6, 1972	1982-2022	3/4%	14,000,000.00	30,480.08			14,030,480.08	342,585.53	13,687,894.55	341
TELECOMMUNICATIONS PROJECT	345	J/D 15	NOV. 15, 1972	1982-2022	3/4%	7,300,000.00	430,436.27			7,730,436.27	2,516,436.27	5,214,000.00	345
RECONSTRUCTION IMPORTS PROJECT	345	J/J 15	NOV. 30, 1972	1982-2022	3/4%	50,000,000.00				50,000,000.00		50,000,000.00	345
SMALL-SCALE INDUSTRY PROJECT	353	A/O 1	JAN. 19, 1973	1983-2022	3/4%	9,000,000.00	38,474.92			9,038,474.92	289,626.63	8,748,848.29	353
CHITTAGONG WATER SUPPLY PROJECT	367	A/O 1	APR. 9, 1973	1983-2022	3/4%	7,000,000.00	681,379.68			7,681,379.68	4,179,231.19	3,502,148.49	367
DACCA WATER SUPPLY & SEWERAGE PROJECT	368	A/O 1	APR. 9, 1973	1983-2022	3/4%	15,200,000.00	1,245,531.28			16,445,531.28	7,920,401.32	8,525,129.96	368
FOODGRAIN STORAGE PROJECT	381	J/J 1	MAY 18, 1973	1983-2023	3/4%	19,700,000.00 1/							381
EDUCATION PROJECT	407	A/O 1	JUNE 29, 1973	1983-2022	3/4%	21,000,000.00 1/							407
HIGHWAY PROJECT	408	A/O 15	JUNE 29, 1973	1983-2023	3/4%	25,000,000.00 1/							408
TECHNICAL ASSISTANCE PROJECT	409	J/J 1	JUNE 29, 1973	1983-2023	3/4%	4,000,000.00 1/							409
CEREAL SEEDS PROJECT	410	J/D 1	JUNE 29, 1973	1983-2023	3/4%	7,500,000.00 1/							410
					TOTAL	209,700,000.00	2,556,423.51			139,056,423.51	16,223,296.39	118,835,127.12	BD
BOLIVIA #BOH#													
ENDE POWER PROJECT	61	M/N 1	JULY 24, 1964	1974-2014	3/4%	10,000,000.00	2,063,443.31			12,063,443.31	12,063,443.31		61
BPC POWER PROJECT	62	M/N 1	JULY 24, 1964	1974-2014	3/4%	5,000,000.00	1,031,721.69			6,031,721.69	6,031,721.69		62
BENI LIVESTOCK DEVELOPMENT PROJECT	187	M/N 15	MAY 26, 1967	1977-2016	3/4%	2,000,000.00	410,129.11	8,116.29		2,402,012.82	2,402,012.82		187
SECOND ENDE POWER PROJECT	148	J/D 15	APR. 28, 1969	1979-2018	3/4%	7,400,000.00	1,079,168.75			8,479,168.75	7,302,689.16	1,176,479.59	148
INTERIM SECOND BENI LIVESTOCK DEVELOPMENT PROJECT	171	M/N 15	JAN. 13, 1970	1980-2019	3/4%	1,400,000.00	201,702.48			1,601,702.48	1,533,776.86	67,925.62	171
THIRD LIVESTOCK DEVELOPMENT PROJECT	261	M/N 15	JUNE 25, 1971	1981-2021	3/4%	6,800,000.00	11,792.23			6,811,792.23	234,667.12	6,577,325.11	261
RAILWAY PROJECT	346	J/J 1	DEC. 1, 1972	1983-2022	3/4%	8,000,000.00				8,000,000.00		8,000,000.00	346
					TOTAL	40,600,000.00	4,797,957.57	8,116.29		45,389,841.28	29,568,110.96	15,821,730.32	BO
BOTSWANA #BTW#													
ROAD PROJECT	65	J/J 15	AUG. 3, 1964	1975-2014	3/4%	3,600,000.00	742,839.58			4,342,839.58	4,342,839.58		65
SHASHI INFRASTRUCTURE ENG. & PRELIM. WORKS PROJ.	172	M/N 1	JAN. 19, 1970	1979-2019	3/4%	2,500,000.00	320,170.26	910,000.00		1,910,170.26	1,910,170.26		172
GABORONE-LOBATSE WATER SUPPLY PROJECT	233	J/D 1	FEB. 10, 1971	1981-2020	3/4%	3,000,000.00	136,663.11			3,136,663.11	1,338,551.22	1,798,111.89	233
SECOND ROAD PROJECT	303	M/S 1	APR. 27, 1972	1982-2021	3/4%	2,000,000.00				2,000,000.00	287,148.98	1,712,851.02	303
LIVESTOCK PROJECT	325	M/S 15	JUNE 30, 1972	1982-2022	3/4%	1,650,000.00				1,650,000.00		1,650,000.00	325
					TOTAL	12,750,000.00	1,199,672.95	910,000.00		13,039,672.95	7,878,710.04	5,160,962.91	BT
BURUNDI #BDI#													
BUJUMBURA WATER SUPPLY PROJECT	89	F/A 1	MAR. 31, 1966	1976-2016	3/4%	1,100,000.00	220,344.71	28,841.66		1,291,703.05	1,291,703.05		89
COFFEE IMPROVEMENT PROJECT	147	M/N 1	APR. 11, 1969	1979-2018	3/4%	1,800,000.00	129,019.45			1,929,019.45	926,674.49	1,002,344.96	147
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	2,900,000.00	349,364.16	28,841.66		3,220,722.50	2,218,377.54	1,002,344.96	BD
CAMEROON #CMR#													
CANDEV PROJECT	100	J/J 1	MAR. 28, 1967	1977-2017	3/4%	11,000,000.00	2,258,375.04			13,258,375.04	13,258,375.04		100
EDUCATION PROJECT	161	J/D 15	SEPT. 29, 1969	1979-2019	3/4%	10,500,000.00	67,622.28			10,567,622.28	1,483,499.62	9,084,122.66	161
HIGHWAY PROJECT	180	J/D 1	MAR. 27, 1970	1980-2019	3/4%	7,000,000.00	882,350.65			7,882,350.65	7,882,350.65		180

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made / Program or project	Develop-ment Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustments[1]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[2]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Develop-ment Credit number
						$	$	$	$	$			
DOUALA PORT PROJECT	229	J/D 1	JAN. 14, 1971	1981-2020	3/4%	1,500,000.00	103,644.86			1,603,644.86	1,126,179.08	477,465.78	229
SENRY RICE PROJECT	302	A/D 1	APR. 26, 1972	1982-2021	3/4%	3,700,000.00				3,700,000.00	1,379,429.29	2,320,570.71	302
SECOND EDUCATION PROJECT	320	J/D 15	JUNE 28, 1972	1982-2022	3/4%	9,000,000.00				9,000,000.00		9,000,000.00	320
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	42,700,000.00	3,311,992.83			46,011,992.83	25,129,833.68	20,882,159.15	CM
CENTRAL AFRICAN REPUBLIC #CA#													
HIGHWAY PROJECT	146	M/S 1	APR. 3, 1969	1979-2019	3/4%	4,200,000.00	648,767.41			4,848,767.41	4,198,435.82	652,331.59	146
HIGHWAY MAINTENANCE PROJECT	199	J/D 15	JUNE 19, 1970	1980-2020	3/4%	4,300,000.00	328,321.28			4,628,321.28	3,314,965.34	1,313,355.94	199
EDUCATION PROJECT	308	J/J 15	MAY 20, 1972	1982-2022	3/4%	3,900,000.00				3,900,000.00		3,900,000.00	308
					TOTAL	12,400,000.00	977,288.69			13,377,288.69	7,511,399.16	5,865,889.53	CA
CHAD #CD#													
HIGHWAY MAINTENANCE PROJECT	125	J/D 1	AUG. 14, 1968	1978-2018	3/4%	4,100,000.00	446,615.36			4,546,615.36	3,009,459.20	1,537,162.16	125
EDUCATION PROJECT	126	J/D 1	AUG. 29, 1968	1978-2018	3/4%	1,800,000.00	34,163.20			1,834,163.20	248,269.15	1,585,894.05	126
SECOND EDUCATION PROJECT	251	J/D 1	JUNE 16, 1971	1981-2020	3/4%	2,200,000.00	6,237.88			2,206,237.88	71,962.91	2,134,274.97	251
LIVESTOCK DEVELOPMENT PROJECT	309	J/D 1	MAY 31, 1972	1982-2021	3/4%	2,200,000.00				2,200,000.00		2,200,000.00	309
					TOTAL	10,300,000.00	487,016.64			10,787,016.64	3,329,685.26	7,457,331.58	CD
CHILE #CH#													
ROAD CONSTRUCTION	4	J/D 1	JUNE 28, 1961	1971-2011	3/4%	19,000,000.00	3,878,919.07	2,244.58	290,938.99	22,585,735.50	22,876,674.49		4
					TOTAL	19,000,000.00	3,878,919.07	2,244.58	290,938.99	22,585,735.50	22,876,674.49		CH
CHINA #CH##													
HARBOR DREDGING	6	M/S 15	AUG. 30, 1961	1972-2011	3/4%	2,200,000.00	449,441.01	21,731.53	12,234.29	2,615,475.19	2,627,709.48		6
GROUND WATER DEVELOPMENT	7	M/S 15	AUG. 30, 1961	1972-2011	3/4%	3,700,000.00	415,989.22	1,668,668.43	31,362.71	2,415,957.88	2,447,320.59		7
MUNICIPAL WATER SUPPLY	9	M/S 15	SEPT. 6, 1961	1972-2011	3/4%	4,400,000.00	815,362.64	417,029.80	63,081.46	4,735,251.38	4,798,332.84		9
DEVELOPMENT OF PRIVATE INDUSTRY	17	M/S 15	DEC. 1, 1961	1972-2011	3/4%	5,000,000.00	1,001,288.43	118,853.48	67,537.54	5,814,875.21	5,882,412.75		17
					TOTAL	15,300,000.00	2,682,059.30	2,226,283.64	174,216.00	15,581,559.66	15,755,775.66		CHA
COLOMBIA #CO#													
ROAD PROJECT	5	J/D 1	AUG. 28, 1961	1971-2011	3/4%	19,500,000.00	3,980,995.92		406,797.86	23,074,198.06	23,480,995.92		5
					TOTAL	19,500,000.00	3,980,995.92		406,797.86	23,074,198.06	23,480,995.92		CO
CONGO, THE PEOPLES REPUBLIC OF THE #CO##													
HIGHWAY IMPROVEMENT PROJECT	189	M/N 15	MAY 28, 1970	1980-2020	3/4%	1,500,000.00	173,204.55			1,673,204.55	1,654,874.54	18,330.01	189
EDUCATION PROJECT	237	A/O 15	MAR. 26, 1971	1981-2020	3/4%	3,500,000.00	4,507.79			3,504,507.79	40,078.90	3,464,430.89	237
HIGHWAY MAINTENANCE PROJECT	274	J/D 1	DEC. 22, 1971	1982-2021	3/4%	4,000,000.00	124,451.34			4,124,451.34	1,008,076.76	3,116,374.58	274
RAILWAY PROJECT	297	M/S 1	APR. 7, 1972	1982-2022	3/4%	6,300,000.00	92,083.10			6,392,083.10	1,896,456.55	4,497,626.57	297
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	15,300,000.00	394,246.78			15,694,246.78	4,597,462.75	11,096,784.05	COB
COSTA RICA #CR#													
ROAD CONSTRUCTION AND MAINTENANCE	10	M/N 1	OCT. 13, 1961	1971-2011	3/4%	5,500,000.00	928,899.07	949,757.55	95,161.95	5,383,979.57	5,479,141.52		10
					TOTAL	5,500,000.00	928,899.07	949,757.55	95,161.95	5,383,979.57	5,479,141.52		CR
DAHOMEY #DA#													
HINVI AGRICULTURAL DEVELOPMENT PROJECT	144	M/S 1	MAR. 5, 1969	1979-2019	3/4%	4,600,000.00	345,091.29			4,945,091.29	3,575,109.22	1,369,982.07	144
HIGHWAY MAINTENANCE AND ENG. PROJECT	215	J/J 15	SEPT. 9, 1970	1981-2020	3/4%	5,500,000.00	562,227.67			6,062,227.67	5,661,125.93	401,101.74	215
ZOU-BORGOU COTTON PROJECT	307	A/O 1	MAY 24, 1972	1982-2022	3/4%	4,100,000.00				4,100,000.00	2,145,513.39	1,954,486.61	307
					TOTAL	14,200,000.00	907,318.96			15,107,318.96	9,381,746.54	5,725,570.42	DA
DOMINICAN REPUBLIC #DO#													
EDUCATION PROJECT	235	A/O 1	FEB. 18, 1971	1981-2020	3/4%	4,000,000.00	3,331.67			4,003,331.67	152,267.84	3,871,063.83	235
LIVESTOCK DEVELOPMENT PROJECT	245	M/N 15	MAY 19, 1971	1981-2020	3/4%	5,000,000.00	78,271.71			5,078,271.71	1,045,317.96	4,032,953.75	245
YAQUE DEL NORTE IRRIGATION PROJECT	352	M/N 15	JAN. 17, 1973	1985-2022	3/4%	13,000,000.00 1/							352
					TOTAL	22,000,000.00	81,603.38			9,081,603.38	1,177,585.80	7,904,017.58	DO
ECUADOR #EC#													
SECOND HIGHWAY PROJECT	91	F/A 1	MAY 26, 1964	1974-2014	3/4%	8,000,000.00	1,436,547.39			9,436,547.39	8,657,449.55	779,097.84	91
EDUCATION PROJECT	124	F/A 1	JUNE 27, 1968	1978-2018	3/4%	5,100,000.00	105,939.81			5,205,939.81	1,091,712.93	4,114,226.88	124
INTERIM SECOND LIVESTOCK DEVELOPMENT PROJECT	179	F/A 15	JAN. 20, 1970	1980-2019	3/4%	1,500,000.00	279,255.70			1,779,255.70	1,723,892.64	55,363.06	179
THIRD LIVESTOCK DEVELOPMENT PROJECT	222	A/O 15	DEC. 10, 1970	1981-2020	3/4%	10,000,000.00	90,815.36			10,090,815.36	1,449,010.88	8,641,804.48	222
THIRD POWER PROJECT	286	M/S 15	FEB. 15, 1972	1982-2021	3/4%	6,800,000.00	224,699.32			7,024,699.32	3,039,703.77	3,984,995.55	286
					TOTAL	31,400,000.00	2,137,257.58			33,537,257.58	15,961,769.77	17,575,487.81	EC

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made / Program or project	Development Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	* Original principal amount	Exchange Adjustment[2]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[3]	Principal amounts disbursed[3]	Undisbursed balance of effective Development Credits[3]	Development Credit number
						$	$	$	$	$	$		
DOUALA PORT PROJECT	229	J/D 1	JAN. 14, 1971	1981-2020	3/4%	1,500,000.00	103,644.86			1,603,644.86	1,126,179.08	477,465.78	229
SEMRY RICE PROJECT	302	A/O 1	APR. 26, 1972	1982-2021	3/4%	3,700,000.00				3,700,000.00	1,379,429.29	2,320,570.71	302
SECOND EDUCATION PROJECT	320	J/D 15	JUNE 28, 1972	1982-2022	3/4%	9,000,000.00				9,000,000.00		9,000,000.00	320
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	42,700,000.00	3,311,992.83			46,011,992.83	25,129,833.68	20,882,159.15	CH
CENTRAL AFRICAN REPUBLIC #CA#													
HIGHWAY PROJECT	146	M/S 1	APR. 3, 1969	1979-2019	3/4%	4,200,000.00	648,767.41			4,848,767.41	4,198,433.82	650,333.59	146
HIGHWAY MAINTENANCE PROJECT	199	J/D 15	JUNE 19, 1970	1980-2020	3/4%	4,300,000.00	328,521.28			4,628,521.28	3,314,965.34	1,313,555.94	199
EDUCATION PROJECT	308	J/J 15	MAY 26, 1972	1982-2022	3/4%	3,900,000.00				3,900,000.00		3,900,000.00	308
					TOTAL	12,400,000.00	977,288.69			13,377,288.69	7,513,399.16	5,865,889.53	CA
CHAD #CD#													
HIGHWAY MAINTENANCE PROJECT	125	J/D 1	AUG. 14, 1968	1978-2018	3/4%	4,100,000.00	446,815.56			4,546,815.56	3,009,459.20	1,537,162.36	125
EDUCATION PROJECT	126	J/D 1	AUG. 29, 1968	1978-2018	3/4%	1,800,000.00	34,163.20			1,834,163.20	248,269.15	1,585,894.05	126
SECOND EDUCATION PROJECT	251	J/D 1	JUNE 16, 1971	1981-2020	3/4%	2,200,000.00	6,237.88			2,206,237.88	71,962.91	2,134,274.97	251
LIVESTOCK DEVELOPMENT PROJECT	309	J/D 1	MAY 31, 1972	1982-2021	3/4%	2,200,000.00				2,200,000.00		2,200,000.00	309
					TOTAL	10,300,000.00	487,016.64			10,787,016.64	3,329,685.26	7,457,331.38	CD
CHILE #CH#													
ROAD CONSTRUCTION	4	J/D 1	JUNE 28, 1961	1971-2011	3/4%	19,000,000.00	3,878,919.07	2,244.58	290,938.99	22,585,735.50	22,876,674.49		4
					TOTAL	19,000,000.00	3,878,919.07	2,244.58	290,938.99	22,585,735.50	22,876,674.49		CH
CHINA #CH#													
HARBOR DREDGING	6	M/S 15	AUG. 30, 1961	1972-2011	3/4%	2,200,000.00	449,441.01	21,731.53	12,234.29	2,615,475.19	2,627,709.48		6
GROUND WATER DEVELOPMENT	7	M/S 15	AUG. 30, 1961	1972-2011	3/4%	3,700,000.00	415,989.22	1,668,668.63	31,362.71	2,415,957.88	2,447,320.59		7
MUNICIPAL WATER SUPPLY	9	M/S 15	SEPT. 6, 1961	1972-2011	3/4%	4,400,000.00	815,362.64	417,029.80	63,081.46	4,735,251.38	4,798,332.84		9
DEVELOPMENT OF PRIVATE INDUSTRY	17	M/S 15	DEC. 1, 1961	1972-2011	3/4%	5,000,000.00	1,001,268.43	118,053.68	67,537.54	5,816,879.21	5,882,412.75		17
					TOTAL	15,300,000.00	2,682,059.30	2,226,283.64	174,216.00	15,581,559.66	15,755,775.66		CHA
COLOMBIA #CO#													
ROAD PROJECT	5	J/D 1	AUG. 28, 1961	1971-2011	3/4%	19,500,000.00	3,980,995.92		406,797.86	23,074,198.06	23,480,995.92		5
					TOTAL	19,500,000.00	3,980,995.92		406,797.86	23,074,198.06	23,480,995.92		CO
CONGO, THE PEOPLES REPUBLIC OF THE #CO#													
HIGHWAY IMPROVEMENT PROJECT	189	M/N 15	MAY 28, 1970	1980-2020	3/4%	1,500,000.00	173,204.55			1,673,204.55	1,654,874.54	18,330.01	189
EDUCATION PROJECT	237	A/O 15	MAR. 26, 1971	1981-2020	3/4%	3,500,000.00	4,507.79			3,504,507.79	40,076.90	3,464,430.89	237
HIGHWAY MAINTENANCE PROJECT	274	J/D 1	DEC. 22, 1971	1982-2021	3/4%	4,000,000.00	124,451.54			4,124,451.54	1,008,076.76	3,116,374.78	274
RAILWAY PROJECT	297	M/S 1	APR. 7, 1972	1982-2022	3/4%	4,300,000.00	92,083.10			4,392,083.10	1,896,434.53	4,497,648.57	297
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	15,300,000.00	394,246.78			15,694,246.78	4,597,462.73	11,098,784.05	COB
COSTA RICA #CR#													
ROAD CONSTRUCTION AND MAINTENANCE	10	M/N 1	OCT. 13, 1961	1971-2011	3/4%	5,500,000.00	928,899.07	949,757.55	95,161.95	5,383,979.57	5,479,141.52		10
					TOTAL	5,500,000.00	928,799.07	949,757.55	95,161.95	5,383,979.57	5,479,141.52		CR
DAHOMEY #DA#													
HINVI AGRICULTURAL DEVELOPMENT PROJECT	144	M/S 1	MAR. 5, 1969	1979-2019	3/4%	4,600,000.00	345,091.29			4,945,091.29	3,575,109.22	1,369,982.07	144
HIGHWAY MAINTENANCE AND ENG. PROJECT	215	J/J 15	SEPT. 9, 1970	1981-2020	3/4%	3,500,000.00	562,227.67			4,062,227.67	3,661,123.93	401,103.74	215
ZOU-BORGOU COTTON PROJECT	307	A/O 1	MAY 24, 1972	1982-2022	3/4%	6,100,000.00				6,100,000.00	2,145,513.39	3,954,486.61	307
					TOTAL	14,200,000.00	907,318.96			15,107,318.96	9,381,746.54	5,725,572.42	DA
DOMINICAN REPUBLIC #DO#													
EDUCATION PROJECT	235	A/O 1	FEB. 18, 1971	1981-2020	3/4%	4,000,000.00	3,331.67			4,003,331.67	132,267.84	3,871,063.83	235
LIVESTOCK DEVELOPMENT PROJECT	245	M/N 15	MAY 19, 1971	1981-2020	3/4%	5,000,000.00	78,271.71			5,078,271.71	1,045,317.96	4,032,953.75	245
YAQUE DEL NORTE IRRIGATION PROJECT	352	M/N 15	JAN. 17, 1973	1983-2022	3/4%	13,000,000.00 1/							352
					TOTAL	22,000,000.00	81,603.38			9,081,603.38	1,177,585.80	7,904,017.58	DO
ECUADOR #EC#													
SECOND HIGHWAY PROJECT	51	F/A 1	MAY 26, 1964	1974-2014	3/4%	8,000,000.00	1,436,547.39			9,436,547.39	8,657,449.55	779,097.84	51
EDUCATION PROJECT	124	F/A 1	JUNE 27, 1968	1978-2018	3/4%	9,100,000.00	105,939.81			9,205,939.81	5,091,712.93	4,114,226.88	124
INTERIM SECOND LIVESTOCK DEVELOPMENT PROJECT	173	F/A 15	JAN. 20, 1970	1980-2019	3/4%	1,500,000.00	279,255.70			1,779,255.70	1,723,892.64	55,363.06	173
THIRD LIVESTOCK DEVELOPMENT PROJECT	222	A/O 15	DEC. 10, 1970	1981-2020	3/4%	10,000,000.00	90,815.36			10,090,815.36	1,449,010.88	8,641,804.48	222
THIRD POWER PROJECT	286	M/S 15	FEB. 15, 1972	1982-2021	3/4%	6,800,000.00	224,699.32			7,024,699.32	3,039,703.77	3,984,995.55	286
					TOTAL	31,400,000.00	2,137,257.58			33,537,257.58	19,961,769.77	17,575,487.81	EC

INTERNATIONAL DEVELOPMENT ASSOCIATION

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						$	$	$	$	$	$		
EQUATORIAL GUINEA (EG)													
HIGHWAY PROJECT	362	J/J 15	MAR. 26, 1973	1983-2023	3/4%	2,000,000.00				2,000,000.00		2,000,000.00	362
					TOTAL	2,000,000.00				2,000,000.00		2,000,000.00	EG
EGYPT, ARAB REPUBLIC OF (UAR)													
NILE DELTA DRAINAGE PROJECT	181	M/N 1	APR. 17, 1970	1979-2019	3/4%	26,000,000.00	245,450.21			26,245,450.21	4,002,303.83	22,243,146.38	181
RAILWAY PROJECT	284	M/N 15	FEB. 9, 1972	1982-2021	3/4%	30,000,000.00	190,792.31			30,190,792.31	6,656,049.26	23,534,743.05	284
UPPER EGYPT DRAINAGE PROJECT	393	J/D 15	JUNE 8, 1973	1983-2022	3/4%	36,000,000.00 1/							393
BANK OF ALEXANDRIA PROJECT	412	A/O 15	JUNE 29, 1973	1983-2023	3/4%	15,000,000.00 1/							412
					TOTAL	107,000,000.00	436,242.52			56,436,242.52	10,658,353.09	45,777,889.43	UAR
EL SALVADOR (ES)													
THIRD HIGHWAY PROJECT	51	M/N 1	NOV. 2, 1962	1972-2012	3/4%	8,000,000.00	1,645,871.90	669.26	86,130.18	9,559,072.46	9,845,207.64		51
FIFTH POWER PROJECT	227	A/O 15	JAN. 13, 1971	1981-2020	3/4%	5,600,000.00	743,811.35			6,343,811.35	5,933,241.12	410,570.23	227
					TOTAL	13,600,000.00	2,389,683.25	669.26	86,130.18	15,902,883.81	15,578,448.76	410,570.23	ES
ETHIOPIA (ET)													
THIRD HIGHWAY PROJECT	35	M/N 1	FEB. 27, 1963	1973-2013	3/4%	15,500,000.00	2,679,959.94			18,179,959.94	18,179,959.94		35
EDUCATION PROJECT	84	M/N 1	FEB. 16, 1966	1976-2015	3/4%	7,200,000.00	1,467,874.95			8,667,874.95	8,667,874.95		84
FOURTH HIGHWAY PROJECT	111	J/J 15	JAN. 15, 1968	1978-2017	3/4%	7,700,000.00	1,166,396.67			8,866,396.67	7,312,083.43	1,554,313.24	111
WOLAMO AGRICULTURAL PROJECT	169	J/D 15	NOV. 26, 1969	1979-2019	3/4%	3,500,000.00	428,693.90			3,928,693.90	3,111,785.23	816,908.67	169
HUMERA AGRICULTURAL PROJECT	188	F/A 15	MAY 28, 1970	1980-2020	3/4%	3,100,000.00	233,881.74			3,333,881.74	2,545,554.20	788,327.54	188
SECOND EDUCATION PROJECT	243	A/O 15	MAY 6, 1971	1981-2020	3/4%	9,500,000.00	24,294.43			9,524,294.43	1,374,733.87	8,149,560.56	243
ADDIS ABABA DAIRY DEVELOPMENT PROJECT	269	J/J 1	AUG. 30, 1971	1981-2021	3/4%	4,400,000.00	28,725.10			4,428,725.10	553,677.30	3,875,047.80	269
COFFEE PROCESSING PROJECT	290	M/S 1	MAR. 28, 1972	1982-2021	3/4%	8,300,000.00				8,300,000.00		8,300,000.00	290
AGRICULTURAL & I. D. B. PROJECT	304	J/J 1	MAY 10, 1972	1982-2022	3/4%	11,000,000.00	17,149.14			11,017,149.14	1,768,554.19	9,250,594.95	304
FIFTH HIGHWAY PROJECT	332	F/A 15	SEP. 29, 1972	1982-2022	3/4%	17,000,000.00 1/							332
SECOND LIVESTOCK DEVELOPMENT PROJECT	365	F/A 15	APR. 2, 1973	1985-2022	3/4%	5,000,000.00 1/							365
					TOTAL	88,700,000.00	6,046,975.87			72,246,975.87	41,512,229.11	30,734,752.76	ET
GAMBIA, THE (GM)													
BATHURST PORT PROJECT	187	F/A 1	MAY 26, 1970	1980-2020	3/4%	2,100,000.00	113,180.74			2,213,180.74	1,238,647.43	974,533.31	187
AGRICULTURAL DEVELOPMENT PROJECT	333	J/J 1	SEP. 29, 1972	1982-2022	3/4%	1,300,000.00				1,300,000.00		1,300,000.00	333
					TOTAL	3,400,000.00	113,180.74			3,513,180.74	1,238,647.43	2,274,533.31	GM
GHANA (GH)													
POWER DISTRIBUTION PROJECT	118	M/S 1	JUNE 14, 1968	1978-2017	3/4%	10,000,000.00	2,063,443.38			12,063,443.38	12,063,443.38		118
WATER SUPPLY & SEWERAGE PROJECT	160	J/D 15	AUG. 28, 1969	1979-2019	3/4%	3,500,000.00	471,799.33			3,971,799.33	3,362,312.69	609,486.64	160
FISHERIES PROJECT	163	J/D 15	SEPT. 25, 1969	1979-2019	3/4%	1,500,000.00	26,920.32			1,526,920.32	196,146.07	1,330,774.25	163
EASTERN REGION COCOA PROJECT	205	J/D 15	JUNE 26, 1970	1980-2020	3/4%	8,500,000.00	75,953.91			8,575,953.91	547,908.96	8,028,044.95	205
POWER DISTRIBUTION PROJECT	256	M/S 1	JUNE 21, 1971	1981-2021	3/4%	7,100,000.00	1,040,766.42			8,140,766.42	7,351,921.37	788,845.05	256
SUGAR REHABILITATION PROJECT	354	M/N 15	JAN. 29, 1973	1985-2022	3/4%	15,600,000.00				15,600,000.00		15,600,000.00	354
NOTE — SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11					TOTAL	46,000,000.00	3,678,883.36			49,878,883.36	23,519,732.47	26,359,150.89	GH
GUYANA (GUA)													
EDUCATION PROJECT	139	J/D 15	JAN. 31, 1969	1979-2018	3/4%	2,900,000.00	133,403.86			3,033,403.86	1,082,245.36	1,951,158.10	139
LIVESTOCK PROJECT	221	A/O 1	NOV. 27, 1970	1981-2020	3/4%	2,200,000.00	11,250.50			2,211,250.50	114,355.59	2,096,894.91	221
HIGHWAY PROJECT	301	A/O 1	APR. 26, 1972	1982-2022	3/4%	4,400,000.00				4,400,000.00		4,400,000.00	301
					TOTAL	9,500,000.00	144,654.16			9,644,654.16	1,196,601.15	8,448,053.01	GUA
HAITI (HA)													
INTERIM HIGHWAY PROJECT	52	F/A 15	NOV. 2, 1962	1972-2012	3/4%	350,000.00	71,997.01	144.74	3,643.53	418,208.74	421,852.27		52
					TOTAL	350,000.00	71,997.01	144.74	3,643.53	418,208.74	421,852.27		HA
HONDURAS (HO)													
WESTERN HIGHWAY EXTENSION	1	M/S 1	MAY 12, 1961	1971-2011	3/4%	9,000,000.00		572,026.03	168,533.97	8,259,440.00	8,427,973.97		1
NORTH ROAD PROJECT	71	A/O 1	FEB. 2, 1965	1975-2014	3/4%	3,500,000.00	722,205.13			4,222,205.13	4,222,205.13		71
RIO LINDO HYDRO ELECTRIC PROJECT	116	F/A 15	JUNE 12, 1968	1978-2018	3/4%	4,000,000.00	811,728.21			4,811,728.21	4,811,728.21		116
LIVESTOCK DEVELOPMENT PROJECT	179	F/A 15	MAR. 2, 1970	1980-2019	3/4%	2,600,000.00	159,901.36			2,759,901.36	1,624,615.90	1,135,285.46	179
FOURTH POWER PROJECT	201	J/D 1	JUNE 24, 1970	1980-2020	3/4%	5,500,000.00	730,128.06			6,230,128.06	6,163,470.09	66,657.97	201
					TOTAL	24,600,000.00	2,423,962.76	572,026.03	168,533.97	26,283,402.76	25,249,993.30	1,201,943.43	HO

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						$	$	$	$	$	$		
INDIA #1No													
HIGHWAY CONSTRUCTION AND IMPROVEMENT	3	F/A 15	JUNE 21, 1961	1971-2011	3/4%	60,000,000.00	12,112,713.47	530,000.00	1,240,501.11	70,342,212.36	71,582,713.47		3
TUBEWELL IRRIGATION	8	M/N 1	SEPT. 6, 1961	1971-2011	3/4%	6,000,000.00	1,222,066.30		125,142.60	7,096,923.70	7,222,066.30		8
SHETRUNJI IRRIGATION PROJECT	13	A/D 15	NOV. 22, 1961	1972-2011	3/4%	4,500,000.08	693,156.02	1,114,258.29	53,338.71	4,025,559.02	4,078,897.73		13
SALANDI IRRIGATION PROJECT	16	A/D 15	NOV. 22, 1961	1972-2011	3/4%	8,000,000.08	1,536,139.58	496,000.00	118,991.68	8,921,147.90	9,040,139.58		16
PUNJAB FLOOD PROTECTION AND DRAINAGE	15	M/N 15	NOV. 22, 1961	1972-2011	3/4%	10,000,000.00	2,051,853.61		155,900.30	11,895,953.31	12,051,853.61		15
DURGAPUR POWER EXTENSION	19	F/A 1	FEB. 14, 1962	1972-2012	3/4%	18,500,000.00	3,383,934.27	2,004,294.48	186,950.38	19,692,689.41	19,879,639.79		19
SONE IRRIGATION PROJECT	21	J/J 1	JUNE 29, 1962	1972-2012	3/4%	15,000,000.00	3,086,117.32		81,428.25	18,004,689.07	18,086,117.32		21
PURNA IRRIGATION PROJECT	23	J/J 1	JULY 18, 1962	1973-2012	3/4%	13,000,000.00	2,874,633.09		70,571.15	15,804,061.94	15,874,633.09		23
SECOND KOYNA POWER PROJECT	24	J/J 15	AUG. 8, 1962	1973-2012	3/4%	17,500,000.00	3,600,470.23		94,999.63	21,005,470.60	21,100,470.23		24
BOMBAY PORT PROJECT	27	J/J 15	SEPT.14, 1962	1973-2012	3/4%	18,000,000.00	3,085,492.49	3,003,089.32	81,314.99	18,001,088.18	18,082,403.17		27
TELECOMMUNICATIONS PROJECT	28	M/S 1	SEPT.14, 1962	1973-2012	3/4%	42,000,000.00	8,622,786.57	211,661.56	227,280.84	50,183,844.17	50,411,125.01		28
SEVENTH RAILWAY PROJECT	36	M/N 1	MAR. 22, 1963	1973-2012	3/4%	47,500,000.00	13,928,261.92		366,427.12	81,061,814.80	81,428,241.92		36
KOTHAGUDEM POWER PROJECT	37	J/D 1	MAY 24, 1963	1973-2013	3/4%	20,000,000.00	4,126,886.54			24,126,886.54	24,126,886.54		37
INDUSTRIAL IMPORTS PROJECT	52	M/N 15	JUNE 9, 1964	1974-2014	3/4%	90,000,000.00	18,570,989.33			108,570,989.33	108,570,989.33		52
SECOND TELECOMMUNICATIONS PROJECT	58	J/J 15	JULY 6, 1964	1975-2014	3/4%	33,000,000.00	6,809,362.78			39,809,362.78	39,809,362.78		58
EIGHTH RAILWAY PROJECT	67	M/S 15	OCT. 26, 1964	1974-2014	3/4%	82,000,000.00	12,793,348.23			74,793,348.23	74,793,348.23		67
SECOND INDUSTRIAL IMPORTS PROJECT	78	J/J 1	AUG. 11, 1965	1976-2015	3/4%	200,000,000.00	20,634,432.53			120,634,432.53	120,634,432.53		78
NINTH RAILWAY PROJECT	86	F/A 15	JUNE 29, 1966	1976-2016	3/4%	68,000,000.00	14,031,414.15			82,031,414.15	82,031,414.15		86
BEAS EQUIPMENT PROJECT	89	F/A 1	JUNE 29, 1966	1977-2016	3/4%	25,000,000.00	3,589,351.03			26,589,351.03	26,146,420.86	2,444,930.17	89
THIRD INDUSTRIAL IMPORTS PROJECT	92	J/J 15	AUG. 19, 1966	1977-2016	3/4%	150,000,000.00	30,951,648.66			180,951,648.66	180,951,648.66		92
FOURTH INDUSTRIAL IMPORTS PROJECT	97	A/D 15	DEC. 23, 1966	1977-2017	3/4%	65,000,000.00	13,412,381.14			78,412,381.14	78,412,381.14		97
FIFTH INDUSTRIAL IMPORTS PROJECT	138	M/S 15	JAN. 22, 1969	1979-2019	3/4%	125,000,000.00	25,793,040.58			150,793,040.58	150,793,040.58		138
THIRD TELECOMMUNICATION PROJECT	153	J/D 15	JUNE 18, 1969	1979-2018	3/4%	27,500,000.00	5,636,420.17			33,136,420.17	33,136,420.17		153
TENTH RAILWAY PROJECT	162	M/N 1	SEPT.24, 1969	1979-2019	3/4%	55,000,000.00	11,348,938.06			66,348,938.06	66,348,938.06		162
KADANA IRRIGATION PROJECT	176	F/A 15	FEB. 9, 1970	1980-2019	3/4%	35,000,000.00	1,545,677.97			36,545,677.97	17,542,333.40	19,003,344.57	176
SIXTH INDUSTRIAL IMPORTS PROJECT	182	F/A 15	APR. 24, 1970	1980-2020	3/4%	75,000,000.00	15,475,824.54			90,475,824.54	90,475,824.54		182
GUJARAT AGRICULTURAL PROJECT	191	M/N 15	JUNE 3, 1970	1980-2019	3/4%	35,000,000.00	2,955,316.21			37,955,316.21	31,416,339.66	6,538,976.55	191
PUNJAB AGRICULTURAL PROJECT	203	F/A 15	JUNE 24, 1970	1980-2020	3/4%	27,500,000.00				27,500,000.00		27,500,000.00	203
ANDHRA PRADESH AGRICULTURAL CREDIT PROJECT	226	F/A 15	JAN. 8, 1971	1981-2020	3/4%	24,000,000.00	1,126,739.81			25,526,739.81	12,193,077.52	13,333,662.29	226
AGRICULTURAL AVIATION PROJECT	230	M/N 15	JAN. 28, 1971	1980-2020	3/4%	6,000,000.00				6,000,000.00		6,000,000.00	230
FOURTH TELECOMMUNICATIONS PROJECT	241	J/D 15	MAY 3, 1971	1981-2020	3/4%	78,000,000.00	578,918.02			78,578,918.02	16,802,945.10	61,775,972.92	241
SECOND POWER TRANSMISSION PROJECT	242	F/A 15	MAY 3, 1971	1981-2021	3/4%	78,000,000.00				78,000,000.00		78,000,000.00	242
HARYANA AGRICULTURAL CREDIT PROJECT	249	M/S 1	JUNE 11, 1971	1981-2021	3/4%	25,000,000.00	467,501.91			25,467,501.91	4,978,965.95	20,488,535.96	249
TAMILNADU AGRICULTURAL CREDIT PROJECT	250	M/S 1	JUNE 11, 1971	1981-2021	3/4%	35,000,000.00	442,656.90			35,442,656.90	6,707,290.27	28,735,366.63	250
COCHIN II FERTILIZER PROJECT	264	A/D 1	JULY 30, 1971	1981-2021	3/4%	20,000,000.00	114,706.48			20,114,706.48	1,800,585.29	18,314,121.19	264
WHEAT STORAGE PROJECT	267	J/D 15	AUG. 23, 1971	1981-2020	3/4%	5,000,000.00				5,000,000.00		5,000,000.00	267
POCHAMPAD IRRIGATION PROJECT	268	F/A 15	AUG. 23, 1971	1981-2021	3/4%	39,000,000.00	1,601,654.18			40,601,654.18	16,803,032.19	23,798,621.99	268
MYSORE AGRICULTURAL PROJECT	278	J/J 15	JAN. 7, 1972	1982-2021	3/4%	40,000,000.00	251,658.08			40,251,658.08	6,553,992.39	33,697,665.69	278
GORAKHPUR FERTILIZER EXPANSION PROJECT	279	J/D 1	JAN. 7, 1972	1982-2021	3/4%	10,000,000.00	24,977.28			10,024,977.28	1,032,546.30	8,992,430.98	279
ELEVENTH RAILWAY PROJECT	280	M/N 15	JAN. 24, 1972	1982-2021	3/4%	75,000,000.00	4,977,328.96			79,977,328.96	36,994,225.38	22,983,103.58	280
MAHARASHTRA AGRICULTURAL CREDIT PROJECT	293	A/D 1	MAR. 29, 1972	1982-2021	3/4%	30,000,000.00				30,000,000.00	4,607,557.50	25,392,442.50	293
BIHAR AGRICULTURAL MARKETS PROJECT	294	J/J 15	MAR. 29, 1972	1982-2022	3/4%	14,000,000.00				14,000,000.00		14,000,000.00	294
POPULATION PROJECT	312	M/N 15	JUNE 14, 1972	1982-2022	3/4%	21,200,000.00				21,200,000.00		21,200,000.00	312
SEVENTH INDUSTRIAL IMPORTS PROJECT	327	J/J 1	SEP. 26, 1972	1982-2022	3/4%	75,000,000.00	4,062,660.98			79,062,660.98	69,922,555.40	9,140,105.58	327
SHIPPING PROJECT	328	M/S 15	SEP. 26, 1972	1982-2022	3/4%	83,000,000.00	1,692,097.24			84,692,097.24	31,113,183.16	53,578,914.08	328
EDUCATION PROJECT	342	F/A 1	NOV. 10, 1972	1983-2022	3/4%	12,000,000.00				12,000,000.00		12,000,000.00	342
INDUSTRIAL DEVELOPMENT BANK OF INDIA PROJECT	356	F/A 1	FEB. 9, 1973	1983-2022	3/4%	25,000,000.00				25,000,000.00		25,000,000.00	356
NANGAL FERTILIZER EXPANSION PROJECT	357	F/A 1	FEB. 9, 1973	1983-2022	3/4%	58,000,000.00				58,000,000.00		58,000,000.00	357
THIRD POWER TRANSMISSION PROJECT	377	F/A 15	MAY 9, 1973	1983-2023	3/4%	85,000,000.00 1/							377
MYSORE AGRICULTURAL WHOLESALE MARKET PROJECT	378	A/D 15	MAY 9, 1973	1983-2022	3/4%	8,000,000.00 1/							378
BOMBAY WATER SUPPLY & SEWERAGE PROJECT	390	F/A 1	JUNE 8, 1973	1983-2023	3/4%	85,000,000.00 1/							390
MADHYA PRADESH AGRICULTURAL CREDIT PROJECT	391	F/A 1	JUNE 8, 1973	1983-2023	3/4%	33,000,000.00 1/							391
UTTAR PRADESH AGRICULTURAL CREDIT PROJECT	392	F/A 1	JUNE 8, 1973	1983-2023	3/4%	38,000,000.00 1/							392
EIGHTH INDUSTRIAL IMPORTS PROJECT	402	A/D 15	JUNE 25, 1973	1983-2023	3/4%	140,000,000.00 1/							402
FIFTH TELECOMMUNICATIONS PROJECT	403	J/D 1	JUNE 25, 1973	1983-2023	3/4%	80,000,000.00 1/							403
					TOTAL	2,420,600,000.00	298,993,538.63	7,359,303.65	2,802,846.76	2,270,431,388.22	1,681,369,679.10	991,884,555.88	IN

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made / Program or project	Development Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	* Original principal amount	Exchange Adjustment[1]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[2]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
INDIA (IN)													
HIGHWAY CONSTRUCTION AND IMPROVEMENT	3	F/A 15	JUNE 21, 1961	1971-2011	3/4%	60,000,000.00	12,112,713.47	530,000.00	1,240,501.11	70,342,212.36	71,582,713.47		3
TUBEWELL IRRIGATION	8	M/N 1	SEPT. 6, 1961	1971-2011	3/4%	6,000,000.00	1,222,066.30		125,142.60	7,096,923.70	7,222,066.30		8
SHETPUNJI IRRIGATION PROJECT	13	A/O 15	NOV. 22, 1961	1972-2011	3/4%	4,500,000.00	693,156.02	1,114,258.29	93,338.71	4,025,559.02	4,078,897.73		13
SALANDI IRRIGATION PROJECT	14	A/O 15	NOV. 22, 1961	1972-2011	3/4%	8,000,000.08	1,536,139.58	496,000.00	118,991.68	8,921,147.90	9,040,139.58		14
PUNJAB FLOOD PROTECTION AND DRAINAGE	15	M/N 15	NOV. 22, 1961	1972-2011	3/4%	10,000,000.00	2,051,853.61		155,900.50	11,895,953.31	12,051,853.61		15
DURGAPUR POWER EXTENSION	19	F/A 1	FEB. 14, 1962	1972-2012	3/4%	18,500,000.00	3,383,934.27	2,004,294.48	186,950.38	19,692,689.41	19,879,639.79		19
SONE IRRIGATION PROJECT	21	J/J 1	JUNE 29, 1962	1973-2012	3/4%	15,000,000.00	3,086,117.32		81,428.25	18,004,689.07	18,086,117.32		21
PURNA IRRIGATION PROJECT	23	J/J 1	JULY 18, 1962	1973-2012	3/4%	15,000,000.00	2,674,635.09		70,571.15	15,604,063.94	15,674,635.09		23
SECOND KOYNA POWER PROJECT	24	J/J 15	AUG. 8, 1962	1973-2012	3/4%	17,500,000.00	3,600,470.23		94,399.63	21,005,470.60	21,100,470.23		24
BOMBAY PORT PROJECT	27	J/J 15	SEPT.14, 1962	1973-2012	3/4%	18,000,000.00	3,085,492.49	3,003,089.32	81,314.99	18,001,088.18	18,082,403.17		27
TELECOMMUNICATIONS PROJECT	28	M/S 1	SEPT.14, 1962	1973-2012	3/4%	42,000,000.00	8,622,786.57	211,661.56	227,280.84	50,183,844.17	50,411,125.01		28
SEVENTH RAILWAY PROJECT	36	M/N 1	MAR. 22, 1963	1973-2012	3/4%	67,500,000.00	13,928,241.92		386,427.12	81,061,814.80	81,448,241.92		36
KOTHAGUDEM POWER PROJECT	37	J/D 1	MAY 24, 1963	1973-2013	3/4%	20,000,000.00	4,126,888.54			24,126,888.54	24,126,888.54		37
INDUSTRIAL IMPORTS PROJECT	52	M/N 15	JUNE 9, 1964	1974-2014	3/4%	90,000,000.00	18,570,989.33			108,570,989.33	108,570,989.33		52
SECOND TELECOMMUNICATIONS PROJECT	58	J/J 15	JULY 6, 1964	1975-2014	3/4%	33,000,000.00	6,809,362.78			39,809,362.78	39,809,362.78		58
EIGHTH RAILWAY PROJECT	67	M/S 15	OCT. 26, 1964	1974-2014	3/4%	62,000,000.00	12,793,348.23			74,793,348.23	74,793,348.23		67
SECOND INDUSTRIAL IMPORTS PROJECT	78	J/J 1	AUG. 11, 1965	1976-2015	3/4%	100,000,000.00	20,634,432.53			120,634,432.53	120,634,432.53		78
NINTH RAILWAY PROJECT	88	F/A 15	JUNE 29, 1966	1976-2016	3/4%	68,000,000.00	14,031,414.15			82,031,414.15	82,031,414.15		88
BEAS EQUIPMENT PROJECT	89	F/A 1	JUNE 29, 1966	1977-2016	3/4%	23,000,000.00	3,589,351.03			26,589,351.03	26,144,420.86	2,444,930.17	89
THIRD INDUSTRIAL IMPORTS PROJECT	92	J/J 15	AUG. 19, 1966	1977-2016	3/4%	150,000,000.00	30,951,648.66			180,951,648.66	180,951,648.66		92
FOURTH INDUSTRIAL IMPORTS PROJECT	97	A/O 15	DEC. 23, 1966	1977-2017	3/4%	65,000,000.00	13,412,581.14			78,412,581.14	78,412,581.14		97
FIFTH INDUSTRIAL IMPORTS PROJECT	138	M/S 15	JAN. 22, 1969	1979-2019	3/4%	125,000,000.00	25,793,040.58			150,793,040.58	150,793,040.58		138
THIRD TELECOMMUNICATION PROJECT	153	J/D 15	JUNE 18, 1969	1979-2018	3/4%	27,500,000.00	5,636,420.17			33,136,420.17	33,136,420.17		153
TENTH RAILWAY PROJECT	162	M/N 1	SEPT.24, 1969	1979-2019	3/4%	55,000,000.00	11,348,938.06			66,348,938.06	66,348,938.06		162
KADANA IRRIGATION PROJECT	176	F/A 15	FEB. 9, 1970	1980-2019	3/4%	35,000,000.00	1,545,677.97			36,545,677.97	17,542,333.40	19,003,344.57	176
SIXTH INDUSTRIAL IMPORTS PROJECT	182	F/A 15	APR. 24, 1970	1980-2020	3/4%	75,000,000.00	15,475,824.54			90,475,824.54	90,475,824.54		182
GUJARAT AGRICULTURAL PROJECT	191	M/N 15	JUNE 3, 1970	1980-2019	3/4%	35,000,000.00	2,935,316.21			37,935,316.21	31,416,339.68	6,518,976.53	191
PUNJAB AGRICULTURAL PROJECT	203	F/A 15	JUNE 24, 1970	1980-2020	3/4%	27,500,000.00				27,500,000.00		27,500,000.00	203
ANDHRA PRADESH AGRICULTURAL CREDIT PROJECT	226	F/A 15	JAN. 8, 1971	1981-2020	3/4%	24,000,000.00	1,126,739.81			25,126,739.81	12,193,077.52	13,333,662.29	226
AGRICULTURAL AVIATION PROJECT	230	M/N 15	JAN. 28, 1971	1980-2020	3/4%	6,000,000.00				6,000,000.00		6,000,000.00	230
FOURTH TELECOMMUNICATIONS PROJECT	241	J/D 15	MAY 3, 1971	1981-2020	3/4%	78,000,000.00	578,918.02			78,578,918.02	16,802,945.10	61,775,972.92	241
SECOND POWER TRANSMISSION PROJECT	242	F/A 15	MAY 3, 1971	1981-2021	3/4%	75,000,000.00				75,000,000.00	33,640.84	74,966,359.16	242
HARYANA AGRICULTURAL CREDIT PROJECT	249	M/S 1	JUNE 11, 1971	1981-2021	3/4%	25,000,000.00	467,501.91			25,467,501.91	4,978,965.95	20,488,535.96	249
TAMILNADU AGRICULTURAL CREDIT PROJECT	250	M/S 1	JUNE 11, 1971	1981-2021	3/4%	35,000,000.00	442,656.90			35,442,656.90	6,707,290.27	28,735,366.63	250
COCHIN II FERTILIZER PROJECT	264	A/O 1	JULY 30, 1971	1981-2021	3/4%	20,000,000.00	114,706.48			20,114,706.48	1,800,585.23	18,314,121.25	264
WHEAT STORAGE PROJECT	267	J/D 15	AUG. 23, 1971	1981-2020	3/4%	5,000,000.00				5,000,000.00		5,000,000.00	267
POCHAMPAD IRRIGATION PROJECT	268	F/A 15	AUG. 23, 1971	1981-2021	3/4%	39,000,000.00	1,401,654.18			40,401,654.18	16,803,032.19	23,798,621.99	268
MYSORE AGRICULTURAL PROJECT	278	J/J 15	JAN. 7, 1972	1982-2021	3/4%	40,000,000.00	251,658.08			40,251,658.08	6,953,992.39	33,297,665.69	278
GORAKHPUR FERTILIZER EXPANSION PROJECT	279	J/D 1	JAN. 7, 1972	1982-2021	3/4%	10,000,000.00	24,977.28			10,024,977.28	1,032,546.30	8,992,430.98	279
ELEVENTH RAILWAY PROJECT	280	M/N 15	JAN. 24, 1972	1982-2021	3/4%	75,000,000.00	4,977,328.96			79,977,328.96	36,994,223.38	22,983,105.58	280
MAHARASHTRA AGRICULTURAL CREDIT PROJECT	293	A/O 1	MAR. 29, 1972	1982-2021	3/4%	30,000,000.00				30,000,000.00	4,607,557.50	25,392,442.50	293
BIHAR AGRICULTURAL MARKETS PROJECT	294	J/J 15	MAR. 29, 1972	1982-2022	3/4%	14,000,000.00				14,000,000.00		14,000,000.00	294
POPULATION PROJECT	312	M/N 15	JUNE 14, 1972	1982-2022	3/4%	21,200,000.00				21,200,000.00		21,200,000.00	312
SEVENTH INDUSTRIAL IMPORTS PROJECT	327	J/J 1	SEP. 26, 1972	1982-2022	3/4%	75,000,000.00	4,062,660.98			79,062,660.98	69,922,555.40	9,140,105.58	327
SHIPPING PROJECT	328	M/S 15	SEP. 26, 1972	1982-2022	3/4%	83,000,000.00	1,692,097.24			84,692,097.24	31,113,183.16	53,578,914.08	328
EDUCATION PROJECT	342	F/A 1	NOV. 10, 1972	1983-2022	3/4%	12,000,000.00				12,000,000.00		12,000,000.00	342
INDUSTRIAL DEVELOPMENT BANK OF INDIA PROJECT	356	F/A 1	FEB. 9, 1973	1983-2022	3/4%	25,000,000.00				25,000,000.00		25,000,000.00	356
RANGAL FERTILIZER EXPANSION PROJECT	357	F/A 1	FEB. 9, 1973	1983-2022	3/4%	58,000,000.00				58,000,000.00		88,000,000.00	357
THIRD POWER TRANSMISSION PROJECT	377	F/A 15	MAY 9, 1973	1983-2023	3/4%	85,000,000.00 1/							377
MYSORE AGRICULTURAL WHOLESALE MARKET PROJECT	378	A/O 15	MAY 9, 1973	1983-2022	3/4%	8,000,000.00 1/							378
BOMBAY WATER SUPPLY & SEWERAGE PROJECT	390	F/A 1	JUNE 8, 1973	1983-2023	3/4%	85,000,000.00 1/							390
MADHYA PRADESH AGRICULTURAL CREDIT PROJECT	391	F/A 1	JUNE 8, 1973	1983-2023	3/4%	33,000,000.00 1/							391
UTTAR PRADESH AGRICULTURAL CREDIT PROJECT	392	F/A 1	JUNE 8, 1973	1983-2023	3/4%	88,000,000.00 1/							392
EIGHTH INDUSTRIAL IMPORTS PROJECT	402	A/O 15	JUNE 25, 1973	1983-2023	3/4%	160,000,000.00 1/							402
FIFTH TELECOMMUNICATIONS PROJECT	403	J/D 1	JUNE 25, 1973	1983-2023	3/4%	80,000,000.00 1/							403
				TOTAL		2,420,000,000.00	258,993,538.63	7,359,303.85	2,802,846.76	2,270,431,388.22	1,681,369,879.16	991,864,555.88	IN

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made ☐program or project	Development Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustment[1]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[2]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
INDONESIA HINDa													
IRRIGATION REHABILITATION PROJECT	127	A/O 1	SEPT. 6, 1968	1978-2018	3/4%	5,000,000.00	879,988.25			5,879,988.25	5,621,831.18	258,157.07	127
TECHNICAL ASSISTANCE PROJECT	135	A/O 1	DEC. 27, 1968	1979-2018	3/4%	2,000,000.00	300,310.89			2,300,310.89	2,055,544.21	244,766.68	135
HIGHWAY PROJECT	154	J/D 15	JUNE 20, 1969	1979-2019	3/4%	28,000,000.00	4,580,275.65			32,580,275.65	31,447,936.41	1,132,339.24	154
AGRICULTURAL PROJECT	155	J/D 15	JUNE 20, 1969	1979-2019	3/4%	16,000,000.00	1,573,763.78			17,573,763.78	13,350,512.18	4,223,251.60	155
POWER PROJECT	165	J/D 15	OCT. 29, 1969	1979-2019	3/4%	15,000,000.00	805,812.23			15,805,812.23	8,865,877.43	6,939,934.80	165
PUSRI FERTILIZER PROJECT	193	A/O 1	JUNE 15, 1970	1980-2020	3/4%	30,000,000.00	734,930.29			30,734,930.29	11,448,345.65	19,286,584.64	193
PUSRI FERTILIZER PROJECT	193	A/O 1	MAY 21, 1973	1980-2020	3/4%	5,000,000.00				5,000,000.00		5,000,000.00	193
SECOND AGRICULTURAL PROJECT	194	M/N 1	JUNE 15, 1970	1980-2020	3/4%	17,000,000.00	532,144.47			17,532,144.47	5,316,239.94	12,215,904.53	194
SECOND IRRIGATION REHABILITATION PROJECT	195	M/N 1	JUNE 15, 1970	1980-2020	3/4%	18,500,000.00	642,570.31			19,142,570.31	6,352,677.37	12,789,892.94	195
TELECOMMUNICATIONS EXPANSION PROJECT	210	J/D 1	JULY 13, 1970	1980-2020	3/4%	12,800,000.00	139,856.60			12,939,856.60	1,217,820.90	11,722,035.70	210
FISHERIES PROJECT	211	M/N 1	JULY 13, 1970	1980-2020	3/4%	5,500,000.00	17,527.02			5,517,527.02	112,892.26	5,404,634.76	211
SECOND TECHNICAL ASSISTANCE PROJECT	216	A/O 1	SEPT. 15, 1970	1980-2020	3/4%	4,000,000.00	350,782.85			4,350,782.85	2,699,624.54	1,651,158.31	216
EDUCATION PROJECT	219	J/D 1	NOV. 6, 1970	1980-2020	3/4%	4,600,000.00	2,334.04			4,602,334.04	49,923.86	4,552,410.18	219
THIRD IRRIGATION REHABILITATION PROJECT	220	J/D 1	NOV. 6, 1970	1980-2020	3/4%	14,500,000.00	479,041.15			14,979,041.15	5,602,707.29	9,376,333.86	220
SEEDS PROJECT	246	M/N 1	MAY 19, 1971	1981-2021	3/4%	7,500,000.00	100,091.15			7,600,091.15	770,138.93	6,829,952.22	246
TEA PROJECT	259	F/A 15	JUNE 24, 1971	1981-2021	3/4%	15,000,000.00	120,809.62			15,120,809.62	1,757,932.00	13,362,877.62	259
SECOND HIGHWAY PROJECT	260	M/S 1	JUNE 24, 1971	1981-2021	3/4%	34,000,000.00	305,419.93			34,305,419.93	4,260,272.80	30,045,147.13	260
THIRD TECHNICAL ASSISTANCE PROJECT	275	A/O 1	DEC. 29, 1971	1981-2021	3/4%	4,000,000.00	19,075.98			4,019,075.98	376,799.98	3,642,276.00	275
SECOND EDUCATION PROJECT	288	A/O 15	MAR. 9, 1972	1982-2021	3/4%	6,300,000.00				6,300,000.00		6,300,000.00	288
FOURTH IRRIGATION REHABILITATION PROJECT	289	M/S 1	MAR. 9, 1972	1982-2021	3/4%	12,500,000.00	110,717.93			12,610,717.93	1,658,952.75	10,951,765.18	289
POPULATION PROJECT	300	M/N 1	APR. 20, 1972	1982-2021	3/4%	13,200,000.00				13,200,000.00	130,898.86	13,069,101.14	300
DEVELOPMENT FINANCE CO. PROJECT	310	M/S 1	JUNE 7, 1972	1982-2022	3/4%	10,000,000.00				10,000,000.00	99,446.87	9,900,553.13	310
INTER-ISLAND FLEET REHABILITATION PROJECT	318	F/A 15	JUNE 28, 1972	1982-2022	3/4%	8,500,000.00	26,297.70			8,526,297.70	499,450.01	8,026,847.69	318
FOURTH AGRICULTURAL ESTATES PROJECT	319	F/A 15	JUNE 28, 1972	1982-2022	3/4%	11,000,000.00				11,000,000.00	51,761.91	10,948,238.09	319
SECOND ELECTRICITY DISTRIBUTION PROJECT	334	F/A 15	SEP. 29, 1972	1982-2022	3/4%	40,000,000.00				40,000,000.00		40,000,000.00	334
BEEF CATTLE DEVELOPMENT PROJECT	355	M/S 1	JAN. 31, 1973	1983-2022	3/4%	3,600,000.00				3,600,000.00		3,600,000.00	355
NORTH SUMATRA SMALLHOLDER DEVELOPMENT PROJECT	358	M/N 1	FEB. 14, 1973	1983-2022	3/4%	5,000,000.00 1/							358
THIRD EDUCATION PROJECT	387	A/O 15	JUNE 1, 1973	1983-2023	3/4%	13,500,000.00 1/							387
THIRD HIGHWAY PROJECT	388	A/O 15	JUNE 1, 1973	1983-2023	3/4%	14,000,000.00				14,000,000.00		14,000,000.00	388
WEST JAVA THERMAL POWER PROJECT	399	F/A 15	JUNE 22, 1973	1983-2023	3/4%	46,000,000.00 1/							399
SMALLHOLDER & PRIVATE ESTATE TEA PROJECT	400	A/O 15	JUNE 22, 1973	1983-2023	3/4%	7,800,000.00 1/							400
SUGAR PROJECT	405	A/O 1	JUNE 26, 1973	1983-2023	3/4%	50,000,000.00 1/							405
					TOTAL	477,800,000.00	11,721,749.84			367,221,749.84	103,743,346.91	263,478,402.93	IND
IVORY COAST HIVCa													
FOURTH HIGHWAY PROJECT	406	J/J 15	JUNE 28, 1973	1983-2023	3/4%	7,500,000.00 1/							406
					TOTAL	7,500,000.00							IVC
JORDAN HJOR													
AMMAN WATER SUPPLY PROJECT	18	M/N 15	DEC. 22, 1961	1971-2011	3/4%	2,000,000.00	306,230.51	500,000.00	30,885.08	1,775,345.43	1,806,230.51		18
WATER SUPPLY PROJECT	43	M/N 15	DEC. 12, 1963	1974-2013	3/4%	5,500,000.00	519,059.72	984,497.34		5,034,562.38	5,034,562.38		43
AGRICULTURAL CREDIT PROJECT	44	F/A 1	DEC. 12, 1963	1974-2013	3/4%	3,000,000.00	619,032.99			3,619,032.99	3,619,032.99		44
SECOND AGRICULTURAL CREDIT PROJECT	103	F/A 1	MAY 9, 1967	1977-2017	3/4%	3,000,000.00	610,164.12			3,610,164.12	3,610,164.12		103
HIGHWAY PROJECT	262	M/S 15	JUNE 28, 1971	1981-2021	3/4%	6,000,000.00	288,884.76			6,288,884.76	3,273,105.62	3,015,779.14	262
EDUCATION PROJECT	285	M/N 1	FEB. 14, 1972	1982-2021	3/4%	5,400,000.00				5,400,000.00	70,480.87	5,329,519.13	285
AMMAN WATER SUPPLY & SEWERAGE PROJECT II	385	A/O 15	MAY 24, 1973	1983-2023	3/4%	8,700,000.00 1/							385
HUSSEIN THERMAL POWER PROJECT	386	A/O 15	MAY 24, 1973	1983-2023	3/4%	10,200,000.00 1/							386
					TOTAL	41,800,000.00	2,343,372.10	1,484,497.34	30,885.08	25,727,989.68	15,413,576.49	8,345,298.27	JO
KENYA HKEN													
KENYA TEA DEVELOPMENT AUTHORITY PROJECT	64	J/D 1	AUG. 17, 1964	1974-2013	3/4%	2,800,000.00	455,538.00	592,340.65		2,663,197.35	2,663,197.35		64
HIGHWAY PROJECT	70	M/S 1	DEC. 29, 1964	1975-2014	3/4%	4,500,000.00	928,549.50			5,428,549.50	5,428,549.50		70
TEA ROAD PROJECT	77	F/A 1	JUNE 30, 1965	1975-2015	3/4%	3,000,000.00	619,033.02			3,619,033.02	3,619,033.02		77
EDUCATION PROJECT	93	F/A 15	AUG. 19, 1966	1976-2016	3/4%	7,000,000.00	1,444,410.33			8,444,410.33	8,444,410.33		93
AGRICULTURAL ROADS PROJECT	104	M/S 1	MAY 11, 1967	1977-2017	3/4%	5,300,000.00	1,087,871.45	27,883.29		6,359,988.16	6,359,988.16		104
AGRICULTURAL CREDIT PROJECT	105	J/J 1	MAY 11, 1967	1977-2017	3/4%	3,600,000.00	589,709.71			4,189,709.71	4,189,709.71		105
SECOND KENYA TEA DEVELOPMENT AUTHORITY PROJECT	119	J/D 1	JUNE 17, 1968	1978-2017	3/4%	2,100,000.00	24,843.85			2,124,843.85	145,243.80	1,979,600.05	119
SECOND HIGHWAY PROJECT	120	M/S 1	JUNE 17, 1968	1978-2018	3/4%	10,700,000.00	2,172,263.63			12,872,263.63	12,872,263.63		120
LIVESTOCK DEVELOPMENT PROJECT	129	M/S 1	SEPT. 26, 1968	1978-2018	3/4%	3,600,000.00	325,680.50			3,925,680.50	2,833,119.39	1,092,561.11	129
SECOND EDUCATION PROJECT	185	M/S 1	MAY 20, 1970	1980-2020	3/4%	6,100,000.00	125,729.69			6,225,729.69	1,972,802.93	4,252,926.76	185
HIGHWAY MAINTENANCE PROJECT	224	A/O 1	DEC. 28, 1970	1981-2020	3/4%	12,600,000.00	243,192.09			12,843,192.09	7,880,785.58	4,962,406.51	224
FOURTH HIGHWAY PROJECT	276	J/J 1	JAN. 5, 1972	1982-2022	3/4%	22,000,000.00	4,216.94			22,004,216.94	2,393,204.60	19,611,012.34	276
SECOND AGRICULTURAL CREDIT PROJECT	344	F/A 1	NOV. 29, 1972	1983-2022	3/4%	6,000,000.00				6,000,000.00		6,000,000.00	344
					TOTAL	89,300,000.00	8,021,038.71	620,223.94		96,700,814.77	58,802,308.00	37,898,506.77	KE

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made (Program or project)	Development Credit number	Semi-annual payments dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustment[2]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[3]	Principal amount disbursed[4]	Undisbursed balance of effective Development Credits[4]	Development Credit number	
						$	$	$	$	$	$			
KOREA (KOR)														
RAILROAD PROJECT	29	F/A	1 AUG. 17, 1962	1973-2012	5/4%	14,000,000.00	2,879,769.69	7,076.13	68,317.08	16,804,376.48	16,872,693.56		29	
SECOND RAILROAD PROJECT	110	J/D	1 DEC. 18, 1967	1977-2017	3/4%	11,000,000.00	2,196,577.61	354,795.36		12,841,782.25	12,841,782.25		110	
EDUCATION PROJECT	151	J/D	15 JUNE 4, 1969	1979-2018	3/4%	14,800,000.00	331,347.69			15,131,347.69	3,269,549.08	11,861,798.61	151	
THIRD RAILROAD PROJECT	183	H/S	1 MAY 14, 1970	1980-2019	3/4%	19,000,000.00	3,085,883.58			18,085,883.58	18,085,883.58		183	
INTEGRATED DAIRY BEEF DEVELOPMENT PROJECT	234	H/N	15 FEB. 11, 1971	1981-2020	3/4%	7,000,000.00	236,955.64			7,236,955.64	2,681,218.10	4,555,717.54	234	
IRRIGATION PROJECT	283	H/S	15 FEB. 2, 1972	1982-2021	3/4%	15,000,000.00	37,102.89			15,037,102.89	397,785.85	14,639,319.04	283	
AGRICULTURAL CREDIT PROJECT	399	H/S	1 SEP. 29, 1972	1982-2022	3/4%	10,500,000.00				10,500,000.00		10,500,000.00	535	
SECOND EDUCATION PROJECT	394	J/D	15 JUNE 13, 1973	1983-2022	3/4%	20,000,000.00 1/							394	
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11														
					TOTAL	107,300,000.00	8,767,617.10	361,871.49	68,317.08	95,637,428.53	54,148,910.42	41,556,895.19	KO	
LESOTHO (LSO)														
ROAD PROJECT	82	J/J	1 FEB. 9, 1966	1976-2015	3/4%	4,100,000.00	846,011.73			4,946,011.73	4,946,011.73		82	
THABA BOSIU RURAL DEVELOPMENT PROJECT	361	F/A	1 MAR. 23, 1973	1983-2023	3/4%	5,600,000.00 1/							361	
					TOTAL	9,700,000.00	846,011.73			4,946,011.73	4,946,011.73		LSO	
LIBERIA (LBR)														
EDUCATION PROJECT	305	F/A	1 MAY 17, 1972	1982-2022	3/4%	7,200,000.00				7,200,000.00	50,000.00	7,150,000.00	305	
AGRICULTURAL DEVELOPMENT PROJECT	306	F/A	15 MAY 17, 1972	1982-2022	3/4%	1,200,000.00				1,200,000.00		1,200,000.00	306	
SECOND HIGHWAY PROJECT	395	F/A	15 JUNE 13, 1973	1983-2023	3/4%	2,600,000.00 1/							395	
					TOTAL	11,000,000.00				8,400,000.00	50,000.00	8,350,000.00	LBR	
MALAGASY REPUBLIC (MAG)														
ROAD PROJECT	90	A/D	15 AUG. 2, 1968	1976-2016	3/4%	10,000,000.00	1,643,098.78			11,643,098.78	11,182,345.05	460,751.73	90	
SECOND ROAD PROJECT	134	A/D	15 NOV. 12, 1968	1978-2018	3/4%	4,500,000.00	928,549.50			5,428,549.50	5,428,549.50		134	
TAMATAVE PORT PROJECT	200	J/D	15 JUNE 19, 1970	1980-2020	3/4%	9,600,000.00	252,918.44			9,852,918.44	3,192,408.03	6,660,510.41	200	
LAKE ALAOTRA IRRIGATION PROJECT	214	A/D	15 AUG. 17, 1970	1980-2020	3/4%	5,000,000.00	160,982.76			5,160,982.76	2,578,188.85	2,582,793.91	214	
MORONDAVA IRRIGATION AND RURAL DEVELOPMENT PROJECT	322	A/D	15 JUNE 30, 1972	1982-2022	3/4%	15,100,000.00				15,100,000.00		15,100,000.00	322	
THIRD ROAD PROJECT	351	A/D	15 JAN. 17, 1973	1983-2022	3/4%	15,000,000.00				15,000,000.00		15,000,000.00	351	
					TOTAL	59,400,000.00	2,985,547.48			62,385,547.48	22,381,491.43	40,004,056.05	MAG	
MALAWI (MAI)														
EDUCATION PROJECT	102	A/D	1 MAY 4, 1967	1977-2016	3/4%	6,300,000.00	1,134,440.13			7,434,440.13	6,799,764.72	634,675.41	102	
HIGHWAY PROJECT	112	A/D	1 FEB. 5, 1968	1978-2017	3/4%	11,500,000.00	2,209,293.50			13,709,293.50	13,709,293.50		112	
LILONGWE AGRICULTURAL DEVELOPMENT PROJECT	113	A/D	1 FEB. 5, 1968	1978-2017	3/4%	6,000,000.00	1,172,381.08			7,172,381.08	7,172,381.08		113	
SHIRE VALLEY AGRICULTURAL DEVELOPMENT PROJECT	114	A/D	1 FEB. 5, 1968	1978-2017	3/4%	3,700,000.00	597,052.52			4,297,052.52	4,249,974.83	47,077.69	114	
POWER PROJECT	178	H/N	15 FEB. 11, 1970	1980-2019	3/4%	5,250,000.00	836,787.25			6,086,787.25	6,086,787.25		178	
PHASE II LILONGWE AGRICULTURAL DEVELOPMENT PROJECT	206	J/J	15 MAY 13, 1971	1981-2021	3/4%	7,250,000.00	161,453.75			7,411,453.75	2,694,466.93	4,716,986.82	244	
KARONGA RURAL DEVELOPMENT PROJECT	282	J/J	1 JAN. 26, 1972	1982-2022	3/4%	8,600,000.00	10,429.18			8,610,429.18	402,944.41	8,207,484.77	282	
PHASE II SHIRE VALL EY AGRICULTURAL DEV. PROJECT	369	J/D	1 MAR. 28, 1973	1983-2022	3/4%	10,500,000.00				10,500,000.00		10,500,000.00	365	
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11														
					TOTAL	57,100,000.00	6,121,857.41			63,221,857.41	41,115,612.72	22,106,224.69	MAI	
MALI (MLI)														
RAILWAY PROJECT	95	J/J	1 SEPT.29, 1966	1977-2016	3/4%	9,100,000.00	1,652,686.97			10,752,686.97	10,525,051.74	227,635.23	95	
HIGHWAY PROJECT	197	J/D	1 JUNE 17, 1970	1980-2020	3/4%	7,700,000.00	1,159,298.05			8,859,298.05	7,840,361.19	1,018,936.86	197	
MOPTI RICE PROJECT	277	J/D	1 JAN. 6, 1972	1982-2021	3/4%	6,900,000.00	14,655.34			6,914,655.34	1,300,148.87	5,614,506.47	277	
TELECOMMUNICATIONS PROJECT	321	J/J	15 JUNE 28, 1972	1982-2022	3/4%	3,600,000.00				3,600,000.00	36,368.62	3,563,631.38	321	
SECOND HIGHWAY PROJECT	383	J/D	1 MAY 23, 1973	1983-2022	3/4%	9,500,000.00 1/							383	
SECOND RAILWAY PROJECT	384	J/J	15 MAY 29, 1973	1983-2023	3/4%	6,700,000.00 1/							384	
					TOTAL	43,500,000.00	2,826,640.36			30,126,640.36	19,701,950.42	10,424,709.94	MLI	
MAURITANIA (MAUR)														
ROAD PROJECT	69	J/D	1 DEC. 28, 1964	1976-2014	3/4%	6,700,000.00	1,382,507.03			8,082,507.03	8,082,507.03		69	
HIGHWAY MAINTENANCE PROJECT	199	J/D	1 JUNE 26, 1969	1979-2019	3/4%	3,600,000.00	428,005.08			3,428,005.08	2,799,146.57	628,858.51	199	
LIVESTOCK DEVELOPMENT PROJECT	273	J/D	1 DEC. 17, 1971	1981-2021	3/4%	4,150,000.00	3,019.14			4,153,019.14	88,961.38	4,064,057.76	273	
					TOTAL	13,850,000.00	1,813,531.25			15,663,531.25	10,970,594.98	4,692,916.27	MAU	
MAURITIUS (MAS)														
TEA DEVELOPMENT AUTHORITY PROJECT	299	F/A	15 APR. 9, 1971	1981-2021	3/4%	5,200,000.00	217,156.29			5,417,156.29	1,955,293.64	3,461,862.65	239	
DEVELOPMENT BANK OF MAURITIUS	313	J/J	1 JUNE 23, 1972	1982-2022	3/4%	3,500,000.00	2,198.89			3,502,198.89	190,253.19	3,311,945.70	313	
COROMANDEL INDUSTRIAL ESTATE PROJECT	411	J/J	1 JUNE 29, 1973	1983-2023	3/4%	4,000,000.00 1/							411	
					TOTAL	12,700,000.00	219,355.18			8,919,355.18	2,145,546.83	6,773,808.35	MAS	

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made ☐program or project	Development Credit number	Semi-annual payments dates	Date of Development Credit agreement	Maturities	Service charge rate	* Original principal amount	Exchange Adjustments[1]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[2]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credit number
					%	$	$	$	$	$	$		
KOREA (KOR)													
RAILROAD PROJECT	25	F/A 1	AUG. 17, 1962	1973-2012	3/4%	14,000,000.00	2,879,769.69	7,076.13	68,317.08	16,804,376.48	16,872,693.56		25
SECOND RAILROAD PROJECT	110	J/D 1	DEC. 18, 1967	1977-2017	3/4%	11,000,000.00	2,196,577.41	354,795.36		12,841,782.25	12,841,782.25		110
EDUCATION PROJECT	151	J/D 15	JUNE 4, 1969	1979-2018	3/4%	14,800,000.00	331,347.69			15,131,347.69	9,269,549.08	11,861,798.61	151
THIRD RAILROAD PROJECT	183	M/S 1	MAY 14, 1970	1980-2019	3/4%	15,000,000.00	3,085,883.58			18,085,883.58	18,085,883.58		183
INTEGRATED DAIRY BEEF DEVELOPMENT PROJECT	234	M/N 15	FEB. 11, 1971	1981-2020	3/4%	7,000,000.00	236,935.64			7,236,935.64	2,681,218.10	4,555,717.54	234
IRRIGATION PROJECT	283	M/S 15	FEB. 2, 1972	1982-2021	3/4%	15,000,000.00	37,102.89			15,037,102.89	397,783.85	14,639,319.04	283
AGRICULTURAL CREDIT PROJECT	335	M/S 1	SEP. 29, 1972	1982-2022	3/4%	10,500,000.00				10,500,000.00		10,500,000.00	335
SECOND EDUCATION PROJECT	394	J/D 15	JUNE 13, 1973	1983-2022	3/4%	20,000,000.00 1/							394
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	107,300,000.00	8,767,617.10	361,871.49	68,317.08	95,637,428.53	54,148,910.42	41,556,835.19	KO
LESOTHO (LSO)													
ROAD PROJECT	82	J/J 1	FEB. 9, 1966	1976-2015	3/4%	4,100,000.00	846,011.73			4,946,011.73	4,946,011.73		82
THABA BOSIU RURAL DEVELOPMENT PROJECT	361	F/A 1	MAR. 23, 1973	1983-2023	3/4%	5,600,000.00 1/							361
					TOTAL	9,700,000.00	846,011.73			4,946,011.73	4,946,011.73		LSO
LIBERIA (LBR)													
EDUCATION PROJECT	305	F/A 1	MAY 17, 1972	1982-2022	3/4%	7,200,000.00				7,200,000.00	50,000.00	7,150,000.00	305
AGRICULTURAL DEVELOPMENT PROJECT	306	F/A 15	MAY 17, 1972	1982-2022	3/4%	1,200,000.00				1,200,000.00		1,200,000.00	306
SECOND HIGHWAY PROJECT	395	F/A 15	JUNE 13, 1973	1983-2023	3/4%	2,600,000.00 1/							395
					TOTAL	11,000,000.00				8,400,000.00	50,000.00	8,350,000.00	LBR
MALAGASY REPUBLIC (MAG)													
ROAD PROJECT	90	A/O 15	AUG. 2, 1966	1976-2016	3/4%	10,000,000.00	1,643,096.78			11,643,096.78	11,182,345.05	460,751.73	90
SECOND ROAD PROJECT	134	A/O 15	NOV. 12, 1968	1978-2018	3/4%	4,500,000.00	928,549.50			5,428,549.50	5,428,549.50		134
TAMATAVE PORT PROJECT	200	J/D 15	JUNE 19, 1970	1980-2020	3/4%	9,600,000.00	252,918.44			9,852,918.44	3,192,406.03	6,660,512.41	200
LAKE ALAOTRA IRRIGATION PROJECT	214	A/O 15	AUG. 17, 1970	1980-2020	3/4%	5,000,000.00	160,982.76			5,160,982.76	2,578,188.85	2,582,793.91	214
MOKONDAVA IRRIGATION AND RURAL DEVELOPMENT PROJECT	322	A/O 15	JUNE 30, 1972	1982-2022	3/4%	15,300,000.00				15,300,000.00		15,300,000.00	322
THIRD ROAD PROJECT	351	A/O 15	JAN. 17, 1973	1983-2022	3/4%	15,000,000.00				15,000,000.00		15,000,000.00	351
					TOTAL	59,400,000.00	2,985,547.48			62,385,547.48	22,381,491.43	40,004,058.05	MAG
MALAWI (MAI)													
EDUCATION PROJECT	102	A/O 1	MAY 4, 1967	1977-2016	3/4%	6,300,000.00	1,134,440.13			7,434,440.13	6,799,764.72	634,675.41	102
HIGHWAY PROJECT	112	A/O 1	FEB. 5, 1968	1978-2017	3/4%	11,500,000.00	2,209,293.50			13,709,293.50	13,709,293.50		112
LILONGWE AGRICULTURAL DEVELOPMENT PROJECT	113	A/O 1	FEB. 5, 1968	1978-2017	3/4%	6,000,000.00	1,172,381.08			7,172,381.08	7,172,381.08		113
SHIRE VALLEY AGRICULTURAL DEVELOPMENT PROJECT	114	A/O 1	FEB. 5, 1968	1978-2017	3/4%	5,700,000.00	597,052.52			6,297,052.52	6,249,974.83	47,077.69	114
POWER PROJECT	178	M/N 15	FEB. 11, 1970	1980-2019	3/4%	5,250,000.00	836,787.25			6,086,787.25	6,086,787.25		178
PHASE II LILONGWE AGRICULTURAL DEVELOPMENT PROJECT	244	J/J 15	MAY 13, 1971	1981-2021	3/4%	7,250,000.00	161,453.75			7,411,453.75	2,694,466.93	4,716,986.82	244
LABONGA RURAL DEVELOPMENT PROJECT	282	J/J 1	JAN. 26, 1972	1982-2022	3/4%	6,600,000.00	10,429.18			6,610,429.18	402,944.41	6,207,484.77	282
PHASE II SHIRE VALLEY AGRICULTURAL DEV. PROJECT	363	J/D 1	MAR. 28, 1973	1983-2022	3/4%	10,500,000.00				10,500,000.00		10,500,000.00	363
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	57,100,000.00	6,121,837.41			63,221,837.41	41,115,612.72	22,106,224.69	MAI
MALI (MLI)													
RAILWAY PROJECT	95	J/J 1	SEPT. 29, 1966	1977-2016	3/4%	9,100,000.00	1,652,686.97			10,752,686.97	10,525,051.74	227,635.23	95
HIGHWAY PROJECT	197	J/D 1	JUNE 17, 1970	1980-2020	3/4%	7,700,000.00	1,159,298.05			8,859,298.05	7,840,361.19	1,018,936.86	197
MOPTI RICE PROJECT	277	J/D 1	JAN. 6, 1972	1982-2021	3/4%	6,900,000.00	14,655.34			6,914,655.34	1,108,148.87	5,806,506.47	277
TELECOMMUNICATIONS PROJECT	321	J/J 15	JUNE 28, 1972	1982-2022	3/4%	3,600,000.00				3,600,000.00	36,368.62	3,563,631.38	321
SECOND HIGHWAY PROJECT	383	J/D 1	MAY 23, 1973	1983-2022	3/4%	9,500,000.00 1/							383
SECOND RAILWAY PROJECT	384	J/J 15	MAY 23, 1973	1983-2025	3/4%	4,700,000.00 1/							384
					TOTAL	43,500,000.00	2,826,640.36			30,126,640.36	19,701,930.42	10,424,709.94	MLI
MAURITANIA (MAU)													
ROAD PROJECT	69	J/D 1	DEC. 28, 1964	1976-2014	3/4%	6,700,000.00	1,382,507.03			8,082,507.03	8,082,507.03		69
HIGHWAY MAINTENANCE PROJECT	199	J/D 1	JUNE 26, 1969	1979-2019	3/4%	3,000,000.00	428,005.08			3,428,005.08	2,799,146.57	628,858.51	199
LIVESTOCK DEVELOPMENT PROJECT	273	J/D 1	DEC. 17, 1971	1981-2021	3/4%	4,150,000.00	3,019.14			4,153,019.14	88,941.38	4,064,077.76	273
					TOTAL	13,850,000.00	1,813,531.25			15,663,531.25	10,970,594.98	4,692,936.27	MAU
MAURITIUS (MAS)													
TEA DEVELOPMENT AUTHORITY PROJECT	239	F/A 15	APR. 9, 1971	1981-2021	3/4%	9,200,000.00	217,156.29			9,417,156.29	1,955,293.64	7,461,862.65	239
DEVELOPMENT BANK OF MAURITIUS	313	J/J 1	JUNE 23, 1972	1982-2022	3/4%	3,500,000.00	2,198.89			3,502,198.89	190,253.19	3,311,945.70	313
COROMANDEL INDUSTRIAL ESTATE PROJECT	411	J/J 1	JUNE 29, 1973	1983-2023	3/4%	4,000,000.00 1/							411
					TOTAL	12,700,000.00	219,355.18			8,919,355.18	2,145,546.83	6,773,808.35	MAS

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INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made / Program or project	Development Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustment[2]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[3]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
MOROCCO (MOR)													
EDUCATION PROJECT	79	M/S 15	OCT. 11, 1965	1976-2015	3/4%	11,000,000.00	1,752,937.42			12,752,937.42	10,816,608.75	1,936,328.67	79
HIGHWAY PROJECT	167	M/S 15	NOV. 13, 1969	1980-2019	3/4%	7,300,000.00	906,013.77			8,206,013.77	8,206,013.77		167
SECOND EDUCATION PROJECT	266	M/S 19	AUG. 18, 1971	1981-2021	3/4%	8,500,000.00				8,500,000.00		8,500,000.00	266
SECOND AGRICULTURAL CREDIT PROJECT	338	M/N 1	OCT. 10, 1972	1982-2022	3/4%	10,000,000.00				10,000,000.00		10,000,000.00	338
					TOTAL	36,800,000.00	2,658,951.19			39,458,951.19	19,022,622.52	20,436,328.67	MOR
NEPAL (NEP)													
TELECOMMUNICATIONS PROJECT	166	M/S 15	NOV. 10, 1969	1979-2019	3/4%	1,700,000.00	81,585.20			1,781,585.20	579,556.10	1,202,029.10	166
HIGHWAY PROJECT	223	M/S 15	DEC. 21, 1970	1981-2020	3/4%	2,500,000.00	11,997.80			2,511,997.80	505,234.40	2,006,763.40	223
KATHMANDU TOURISM PROJECT	291	F/A 1	MAR. 22, 1972	1982-2022	3/4%	4,200,000.00				4,200,000.00		4,200,000.00	291
BIRGANJ IRRIGATION PROJECT	373	M/N 1	APR. 18, 1973	1983-2022	3/4%	6,000,000.00 1/							373
SECOND TELECOMMUNICATIONS PROJECT	397	M/S 15	JUNE 20, 1973	1983-2023	3/4%	5,500,000.00 1/							397
					TOTAL	19,900,000.00	93,583.00			8,493,583.00	1,084,790.50	7,408,792.50	NEP
NICARAGUA (NIC)													
MANAGUA WATER SUPPLY PROJECT	26	M/S 1	SEPT. 7, 1962	1972-2012	3/4%	3,000,000.00	616,300.34	5,166.14	31,285.65	3,579,848.55	3,611,134.20		26
EARTHQUAKE RECONSTRUCTION PROJECT	389	J/D 1	JUNE 6, 1973	1983-2022	3/4%	20,000,000.00 1/							389
					TOTAL	23,000,000.00	616,300.34	5,166.14	31,285.65	3,579,848.55	3,611,134.20		NI
NIGER (NIR)													
ROAD PROJECT	59	J/J 15	JUNE 24, 1964	1975-2014	3/4%	1,500,000.00	309,356.36	776.14		1,808,580.22	1,808,580.22		59
HIGHWAY MAINTENANCE PROJECT	128	J/J 15	SEPT. 25, 1968	1978-2018	3/4%	6,120,000.00	1,043,030.41			7,163,030.41	6,801,884.41	361,146.00	128
AGRICULTURAL PROJECT	207	J/J 15	JUNE 29, 1970	1980-2020	3/4%	584,000.00	20,361.51			604,361.51	157,791.57	446,569.94	207
SECOND HIGHWAY CONSTRUCTION PROJECT	291	J/J 15	JAN. 29, 1971	1981-2020	3/4%	5,700,000.00	337,940.18			6,037,940.18	3,509,741.41	2,528,198.77	291
					TOTAL	13,904,000.00	1,710,688.46	776.14		15,613,912.32	12,277,997.61	3,335,914.71	NIR
NIGERIA (NIG)													
EDUCATION PROJECT	72	F/A 15	MAR. 1, 1965	1975-2014	3/4%	20,000,000.00	1,387,905.92			21,387,905.92	11,174,780.62	10,213,125.30	72
NORTHERN ROAD PROJECT	73	F/A 15	MAR. 1, 1965	1975-2014	3/4%	15,500,000.00	3,158,062.89	195,179.54		18,462,883.35	18,462,883.35		73
					TOTAL	35,500,000.00	4,545,968.81	195,179.54		39,850,789.27	29,637,663.97	10,213,125.30	UNI
PAKISTAN (PAK)													
DACCA IRRIGATION PROJECT	11	A/O 1	OCT. 19, 1961	1972-2011	3/4%	1,000,000.00	204,709.42		15,857.10	1,188,852.32	1,204,709.42		11
INLAND PORTS PROJECT	16	A/O 1	NOV. 22, 1961	1972-2011	3/4%	2,000,000.00	406,457.38	14,352.41	31,714.20	2,360,390.77	2,392,104.97		16
KHAIRPUR IRRIGATION PROJECT	22	J/J 1	JUNE 29, 1962	1973-2012	3/4%	18,000,000.00	3,194,453.73	2,867,881.54	83,359.14	18,403,193.05	18,486,552.19		22
INDUSTRIAL ESTATES PROJECT	30	A/O 15	NOV. 2, 1962	1973-2012	3/4%	6,500,000.00	1,327,129.41	68,374.96	34,509.34	7,724,245.11	7,758,754.45		30
BRAHMAPUTRA FLOOD PROJECT	39	J/J 1	JUNE 26, 1963	1973-2013	3/4%	5,000,000.00	1,031,721.64			6,031,721.64	6,031,721.64		39
CHANDPUR IRRIGATION PROJECT	40	J/J 1	JULY 26, 1963	1974-2013	3/4%	9,000,000.00	1,083,297.57	3,750,049.56		6,333,248.01	6,333,248.01		40
DACCA WATER SUPPLY AND SEWERAGE PROJECT	41	A/O 1	AUG. 16, 1963	1975-2013	3/4%	26,000,000.00		26,000,000.00					41
CHITTAGONG WATER SUPPLY AND SEWERAGE PROJECT	42	A/O 1	AUG. 16, 1963	1975-2013	3/4%	24,000,000.00		24,000,000.00					42
EAST PAKISTAN EDUCATION PROJECT	49	M/S 15	MAR. 25, 1964	1974-2013	3/4%	4,500,000.00	762,287.05	809,753.03		4,456,534.02	4,456,534.02		49
WEST PAKISTAN EDUCATION PROJECT	50	M/S 15	MAR. 25, 1964	1974-2013	3/4%	8,500,000.00	1,101,524.66			9,601,524.66	6,941,975.73	2,659,548.93	50
EAST PAKISTAN HIGHWAY PROJECT	53	A/O 15	JUNE 11, 1964	1974-2014	3/4%	22,500,000.00	748,406.85	18,873,019.65		4,375,387.20	4,375,387.20		53
WEST PAKISTAN HIGHWAY PROJECT	54	A/O 15	JUNE 11, 1964	1974-2014	3/4%	17,000,000.00	3,291,130.76	773,601.15		19,517,529.61	19,517,529.61		54
PAKISTAN EASTERN RAILWAY PROJECT	56	M/S 15	JUNE 24, 1964	1974-2014	3/4%	10,000,000.08	2,056,944.51	31,495.00		12,025,449.51	12,025,449.51		56
PAKISTAN WESTERN RAILWAY PROJECT	57	M/S 15	JUNE 24, 1964	1974-2014	3/4%	25,000,000.00	3,020,563.59	669,001.14		29,351,562.45	29,351,562.45		57
INDUS BASIN PROJECT	60	M/S 1	JULY 21, 1964	1975-2014	3/4%	88,540,000.00	12,079,396.71			70,619,396.71	70,619,396.71		60
INLAND WATER TRANSPORT PROJECT	65	J/J 15	AUG. 26, 1964	1974-2014	3/4%	5,250,000.00	1,074,290.58	43,699.91		6,280,590.67	6,280,590.67		65
AGRICULTURAL DEVELOPMENT BANK PROJECT	76	A/O 1	JUNE 30, 1965	1975-2015	3/4%	27,000,000.00	5,571,296.86			32,571,296.86	32,571,296.86		76
COMMERCIAL ROAD VEHICLES PROJECT	81	A/O 15	JAN. 13, 1966	1976-2015	3/4%	25,000,000.00	5,158,605.40	23.02		30,158,582.38	30,158,580.38		81
FOODGRAIN STORAGE PROJECT	89	J/J 1	FEB. 10, 1966	1976-2015	3/4%	19,200,000.00	3,806,026.12	751,099.11		22,255,727.01	22,255,727.01		89
SECOND EAST PAKISTAN EDUCATION PROJECT	87	A/O 15	JUNE 17, 1966	1976-2016	3/4%	13,000,000.00	822,640.98	9,011,085.15		4,811,557.83	4,811,557.83		87
INDUSTRIAL IMPORTS PROJECT	98	M/S 1	DEC. 23, 1966	1977-2016	3/4%	25,000,000.00	5,158,608.22			30,158,608.22	30,158,608.22		98
LAHORE WATER SUPPLY, SEWERAGE & DRAINAGE PROJECT	106	J/D 1	MAY 12, 1967	1977-2016	3/4%	1,750,000.00	360,023.86	3,440.45		2,106,583.41	2,106,583.41		106
SECOND AGRICULTURAL DEVELOPMENT BANK PROJECT	117	M/N 1	JUNE 13, 1968	1978-2017	3/4%	10,000,000.00	2,063,443.34			12,063,443.34	12,063,443.34		117
TECHNICAL ASSISTANCE PROJECT	136	F/A 15	JAN. 13, 1969	1979-2018	3/4%	2,000,000.00	412,688.66			2,412,688.66	2,412,688.66		136
TELECOMMUNICATIONS PROJECT	145	J/D 15	MAR. 6, 1969	1979-2018	3/4%	16,000,000.00	1,575,314.50	7,286,000.00		10,289,314.50	9,659,762.72	629,551.78	145
THIRD AGRICULTURAL DEVELOPMENT BANK PROJECT	157	J/D 15	JUNE 26, 1969	1979-2019	3/4%	30,000,000.00	4,093,823.51			34,093,823.51	26,892,056.91	7,201,766.60	157
INDUSTRIAL DEVELOPMENT BANK PROJECT	177	M/N 1	FEB. 11, 1970	1980-2019	3/4%	20,000,000.00	1,833,138.81			21,833,138.81	11,046,067.46	10,787,071.35	177
CHANDPUR II IRRIGATION PROJECT	184	M/N 1	MAY 14, 1970	1980-2019	3/4%	13,000,000.00		13,000,000.00					184
SECOND TELECOMMUNICATION PROJECT	186	F/A 1	MAY 22, 1970	1980-2020	3/4%	15,000,000.00	230,771.06			15,230,771.06	6,207,838.15	9,022,932.91	186
EAST PAKISTAN SMALL INDUSTRIES PROJECT	192	A/O 1	JUNE 10, 1970	1980-2020	3/4%	3,000,000.00		3,000,000.00					192
ENGINEERING EDUCATION PROJECT	206	A/O 1	JUNE 29, 1970	1980-2020	3/4%	8,000,000.00	384.54	4,000,000.00		4,000,384.54	3,845.34	3,996,539.20	206
EAST PAKISTAN TUBEWELLS PROJECT	208	A/O 1	JUNE 30, 1970	1980-2020	3/4%	14,000,000.00		14,000,000.00					208

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made ☐program or project	Development Credit number	Semi-annual payments dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustment[2]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[3]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
WAPDA POWER PROJECT	213	F/A 1	AUG. 14, 1970	1980-2020	3/4%	25,000,000.00	124,877.36			25,124,877.36	1,673,200.70	21,451,676.66	213
EAST PAKISTAN RECONSTRUCTION PROJECT	228	A/O 15	JAN. 13, 1971	1981-2020	3/4%	25,000,000.00		25,000,000.00					228
INDUSTRIAL IMPORTS PROGRAM	337	F/A 15	OCT. 4, 1972	1982-2022	3/4%	50,000,000.00	2,274,735.60			52,274,735.60	52,191,612.16	83,123.44	337
SECOND INDUSTRIAL IMPORTS PROJECT	396	F/A 15	JUNE 15, 1973	1983-2023	3/4%	45,000,000.00 1/							396
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11					TOTAL	627,740,000.00	66,829,470.68	153,748,874.08	165,439,78	495,659,156.82	439,988,385.73	55,832,210.87	PAK
PARAGUAY ¤PA¤													
HIGHWAY IMPROVEMENT AND MAINTENANCE	12	F/A 15	OCT. 26, 1961	1972-2011	3/4%	6,000,000.00	1,228,256.66		95,155.59	7,133,101.07	7,228,256.66		12
CATTLE PROJECT	47	A/O 1	DEC. 26, 1963	1973-2013	3/4%	5,600,000.00	742,839.57			6,342,839.57	6,342,839.57		47
SECOND LIVESTOCK PROJECT	86	A/O 1	APR. 4, 1966	1976-2015	3/4%	7,500,000.00	1,546,478.09	5,352.25		9,041,125.84	9,041,125.84		86
THIRD LIVESTOCK PROJECT	196	A/O 1	JUNE 25, 1969	1979-2019	3/4%	4,300,000.00	793,414.72			5,093,414.72	5,087,789.72	5,625.00	196
EDUCATION PROJECT	347	J/J 1	DEC. 22, 1972	1983-2022	3/4%	5,100,000.00 1/							347
					TOTAL	28,500,000.00	4,310,989.04	5,352.25	95,155.59	25,610,481.20	25,700,011.79	5,625.00	PA
PHILIPPINES ¤PH¤													
FIFTH POWER PROJECT	296	M/S 1	APR. 3, 1972	1982-2022	3/4%	10,000,000.00	15,929.31			10,015,929.31	539,433.75	9,476,495.56	296
SECOND EDUCATION PROJECT	349	M/S 1	JAN. 5, 1973	1983-2022	3/4%	12,700,000.00				12,700,000.00		12,700,000.00	349
					TOTAL	22,700,000.00	15,929.31			22,715,929.31	539,433.75	22,176,495.56	PH
RWANDA ¤RW¤													
HIGHWAY PROJECT	196	J/J 1	JUNE 17, 1970	1980-2020	3/4%	9,300,000.00	168,801.65			9,468,801.65	2,411,285.52	7,057,516.13	196
HIGHWAY MAINTENANCE	299	J/J 1	APR. 19, 1972	1982-2022	3/4%	3,000,000.00				3,000,000.00		3,000,000.00	299
					TOTAL	12,300,000.00	168,801.65			12,468,801.65	2,411,285.52	10,057,516.13	RW
SENEGAL ¤SE¤													
RAILWAY PROJECT	96	F/A 1	SEPT.29, 1966	1977-2016	3/4%	9,000,000.00	1,623,519.34			10,623,519.34	10,167,734.36	455,784.98	96
AGRICULTURAL CREDIT PROJECT	140	J/J 1	FEB. 10, 1969	1979-2018	3/4%	6,000,000.00	932,837.21			6,932,837.21	6,548,322.62	384,514.59	140
HIGHWAY PROJECT	198	M/S 1	JUNE 19, 1970	1980-2020	3/4%	2,100,000.00	238,243.65			2,338,243.65	2,286,025.49	52,218.16	198
CASAMANCE RICE PROJECT	252	A/O 1	JUNE 18, 1971	1981-2021	3/4%	3,700,000.00	20,374.71			3,720,374.71	347,556.44	3,372,818.27	252
TECHNICAL AND AGRICULTURAL EDUCATION PROJECT	253	J/D 1	JUNE 18, 1971	1981-2021	3/4%	2,000,000.00	6,456.39			2,006,456.39	66,880.79	1,939,575.60	253
TERRES NEUVES SETTLEMENT PROJECT	254	M/N 1	JUNE 18, 1971	1981-2021	3/4%	1,350,000.00 2/	16,119.01			1,266,119.01	225,128.58	1,140,990.43	254
SECOND RAILWAY PROJECT	314	A/O 1	JUNE 23, 1972	1982-2022	3/4%	3,200,000.00				3,200,000.00		3,200,000.00	314
SITE AND SERVICES PROJECT	336	A/O 1	SEP. 29, 1972	1982-2022	3/4%	8,000,000.00 1/							336
SENEGAL RIVER POLDERS PROJECT	350	J/J 1	JAN. 9, 1973	1983-2022	3/4%	4,500,000.00				4,500,000.00		4,500,000.00	350
SECOND HIGHWAY PROJECT	366	J/J 15	APR. 9, 1973	1983-2023	3/4%	8,000,000.00 1/							366
SECOND AGRICULTURAL CREDIT PROJECT	404	J/J 1	JUNE 25, 1973	1983-2023	3/4%	8,200,000.00 1/							404
					TOTAL	58,050,000.00	2,837,550.31			34,587,550.31	19,641,648.48	15,045,901.83	SE
SIERRA LEONE ¤SL¤													
EDUCATION PROJECT	170	M/N 1	JAN. 5, 1970	1980-2019	3/4%	3,000,000.00	75,845.25			3,075,845.25	1,188,183.54	1,887,661.71	170
FIRST HIGHWAY PROJECT	218	A/O 1	OCT. 29, 1970	1981-2020	3/4%	3,500,000.00	158,061.26			3,658,061.26	2,746,220.21	911,841.05	218
INTEGRATED AGRICULTURAL DEVELOPMENT PROJECT	323	M/S 1	JUNE 30, 1972	1982-2022	3/4%	4,300,000.00				4,300,000.00	136,602.19	4,163,397.81	323
					TOTAL	10,800,000.00	233,906.51			11,033,906.51	4,071,005.94	6,962,900.57	SL
SOMALIA ¤SO¤													
ROAD PROJECT	74	J/D 1	MAR. 29, 1965	1975-2014	3/4%	6,200,000.00	1,279,334.87			7,479,334.87	7,479,334.87		74
ROAD PROJECT - SUPPLEMENTARY	123	J/D 1	JUNE 26, 1968	1978-2017	3/4%	3,300,000.00	409,344.25			3,709,344.25	3,394,305.63	315,038.62	123
EDUCATION PROJECT	247	J/D 1	JUNE 5, 1971	1981-2020	3/4%	3,300,000.00	4,288.38			3,304,288.38	70,219.65	3,234,068.73	247
SECOND HIGHWAY PROJECT	295	J/D 1	MAR. 30, 1972	1982-2021	3/4%	9,400,000.00	137,583.76			9,737,583.76	1,908,778.87	7,828,804.89	295
MOGADISCIO PORT PROJECT	359	J/D 1	MAR. 15, 1973	1983-2022	3/4%	17,950,000.00 1/							359
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11					TOTAL	34,550,000.00	1,830,751.26			23,230,751.26	11,852,639.02	11,378,112.24	SO
SRI LANKA ¤CE¤													
LIFT IRRIGATION PROJECT	121	J/J 15	JUNE 19, 1968	1978-2018	3/4%	2,000,000.00	199,933.60			2,199,933.60	1,298,111.58	901,822.02	121
HIGHWAY PROJECT	133	F/A 1	NOV. 12, 1968	1979-2018	3/4%	4,900,000.00	128,857.67	4,275,521.43		753,336.24	753,336.24		133
DRAINAGE AND RECLAMATION PROJECT	168	M/N 1	NOV. 13, 1969	1979-2019	3/4%	2,500,000.00	135,344.61			2,635,344.61	933,470.30	1,701,874.31	168
MAHAWELI GANGA DEVELOPMENT PROJECT	174	F/A 1	JAN. 30, 1970	1980-2019	3/4%	14,500,000.00	957,954.69			15,457,954.69	8,078,384.64	7,381,570.05	174
FIFTH POWER PROJECT	372	M/S 15	APR. 18, 1973	1983-2023	3/4%	6,000,000.00 1/							372
					TOTAL	29,900,000.00	1,422,090.57	4,275,521.43		21,046,569.14	11,061,302.76	9,985,266.38	CE

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made ▢program or project	Development Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustments[2]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[3]	Principal amounts disbursed[4]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
WAPDA POWER PROJECT	213	F/A 1	AUG. 14, 1970	1980-2020	3/4%	25,000,000.00	124,877.36			25,124,877.36	1,673,200.70	23,451,676.66	213
EAST PAKISTAN RECONSTRUCTION PROJECT	228	A/O 15	JAN. 13, 1971	1981-2020	3/4%	25,000,000.00		25,000,000.00					228
INDUSTRIAL IMPORTS PROGRAM	337	F/A 15	OCT. 4, 1972	1982-2022	3/4%	30,000,000.00	2,274,735.60			52,274,735.60	52,191,612.16	83,123.44	337
SECOND INDUSTRIAL IMPORTS PROJECT	396	F/A 15	JUNE 15, 1973	1983-2023	3/4%	45,000,000.00 1/							396
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	627,740,000.00	66,829,470.68	153,768,874.08	165,439.78	495,655,156.82	439,988,385.73	55,832,210.87	PAK
PARAGUAY ¤PA¤													
HIGHWAY IMPROVEMENT AND MAINTENANCE	12	F/A 15	OCT. 26, 1961	1972-2011	3/4%	6,000,000.00	1,228,256.66		95,155.59	7,133,101.07	7,228,256.66		12
CATTLE PROJECT	47	A/O 1	DEC. 26, 1963	1973-2013	3/4%	3,600,000.00	742,839.57			4,342,839.57	4,342,839.57		47
SECOND LIVESTOCK PROJECT	86	A/O 1	APR. 4, 1966	1976-2015	3/4%	7,500,000.00	1,546,478.09	5,352.25		9,041,125.84	9,041,125.84		86
THIRD LIVESTOCK PROJECT	156	A/O 1	JUNE 25, 1969	1979-2019	3/4%	4,350,000.00	793,414.72			5,093,414.72	5,087,789.72	5,625.00	156
EDUCATION PROJECT	347	J/J 1	DEC. 22, 1972	1983-2022	3/4%	5,100,000.00 1/							347
					TOTAL	26,550,000.00	4,310,989.04	5,352.25	95,155.59	25,610,481.20	25,700,011.79	5,625.00	PA
PHILIPPINES ¤PH¤													
FIFTH POWER PROJECT	296	M/S 1	APR. 3, 1972	1982-2022	3/4%	10,000,000.00	15,929.31			10,015,929.31	539,433.75	9,476,495.56	296
SECOND EDUCATION PROJECT	349	M/S 1	JAN. 5, 1973	1983-2022	3/4%	12,700,000.00				12,700,000.00		12,700,000.00	349
					TOTAL	22,700,000.00	15,929.31			22,715,929.31	539,433.75	22,176,495.56	PH
RWANDA ¤RW¤													
HIGHWAY PROJECT	196	J/J 1	JUNE 17, 1970	1980-2020	3/4%	9,300,000.00	168,801.65			9,468,801.65	2,411,285.52	7,057,516.13	196
HIGHWAY MAINTENENCE	299	J/J 1	APR. 19, 1972	1982-2022	3/4%	3,000,000.00				3,000,000.00		3,000,000.00	299
					TOTAL	12,300,000.00	168,801.65			12,468,801.65	2,411,285.52	10,057,516.13	RW
SENEGAL ¤SE¤													
RAILWAY PROJECT	96	F/A 1	SEPT. 29, 1966	1977-2016	3/4%	9,000,000.00	1,623,519.34			10,623,519.34	10,167,734.36	455,784.98	96
AGRICULTURAL CREDIT PROJECT	140	J/J 1	FEB. 10, 1969	1979-2018	3/4%	6,000,000.00	932,837.21			6,932,837.21	6,548,322.62	384,514.59	140
HIGHWAY PROJECT	198	M/S 1	JUNE 19, 1970	1980-2020	3/4%	2,100,000.00	238,243.65			2,338,243.65	2,286,025.49	52,218.16	198
CASAMANCE RICE PROJECT	252	A/O 1	JUNE 18, 1971	1981-2021	3/4%	3,700,000.00	20,374.71			3,720,374.71	347,556.64	3,372,818.07	252
TECHNICAL AND AGRICULTURAL EDUCATION PROJECT	253	J/D 1	JUNE 18, 1971	1981-2021	3/4%	2,000,000.00	6,456.39			2,006,456.39	66,880.79	1,939,575.60	253
TERRES NEUVES SETTLEMENT PROJECT	254	M/N 1	JUNE 18, 1971	1981-2021	3/4%	1,250,000.00 2/	16,119.01			1,266,119.01	225,128.58	1,040,990.43	254
SECOND RAILWAY PROJECT	314	A/O 1	JUNE 23, 1972	1982-2022	3/4%	9,200,000.00				9,200,000.00		9,200,000.00	314
SITE AND SERVICES PROJECT	336	A/O 1	SEP. 29, 1972	1982-2022	3/4%	8,000,000.00 1/							336
SENEGAL RIVER POLDERS PROJECT	350	J/J 1	JAN. 9, 1973	1983-2022	3/4%	4,500,000.00				4,500,000.00		4,500,000.00	350
SECOND HIGHWAY PROJECT	366	J/J 15	APR. 9, 1973	1983-2023	3/4%	8,000,000.00 1/							366
SECOND AGRICULTURAL CREDIT PROJECT	404	J/J 1	JUNE 25, 1973	1983-2023	3/4%	8,200,000.00 1/							404
					TOTAL	56,050,000.00	2,837,550.31			34,587,550.31	19,641,648.48	15,045,901.83	SE
SIERRA LEONE ¤SL¤													
EDUCATION PROJECT	170	M/N 1	JAN. 5, 1970	1980-2019	3/4%	3,000,000.00	75,845.25			3,075,845.25	1,188,183.54	1,887,661.71	170
FIRST HIGHWAY PROJECT	218	A/O 1	OCT. 29, 1970	1981-2020	3/4%	3,500,000.00	158,061.26			3,658,061.26	2,746,220.21	911,841.05	218
INTEGRATED AGRICULTURAL DEVELOPMENT PROJECT	323	M/S 1	JUNE 30, 1972	1982-2022	3/4%	4,300,000.00				4,300,000.00	136,602.19	4,163,397.81	323
					TOTAL	10,800,000.00	233,906.51			11,033,908.51	4,071,005.94	6,962,900.57	SL
SOMALIA ¤SO¤													
ROAD PROJECT	74	J/D 1	MAR. 29, 1965	1975-2014	3/4%	6,200,000.00	1,279,334.87			7,479,334.87	7,479,334.87		74
ROAD PROJECT - SUPPLEMENTARY	129	J/D 1	JUNE 26, 1968	1978-2017	3/4%	2,300,000.00	409,544.25			2,709,544.25	2,394,305.63	315,238.62	129
EDUCATION PROJECT	247	J/D 1	JUNE 3, 1971	1981-2020	3/4%	5,300,000.00	4,288.38			5,304,288.38	70,219.65	5,234,068.73	247
SECOND HIGHWAY PROJECT	295	J/D 1	MAR. 30, 1972	1982-2021	3/4%	9,600,000.00	137,583.76			9,737,583.76	1,908,778.87	7,828,804.89	295
MOGADISCIO PORT PROJECT	359	J/D 1	MAR. 15, 1973	1983-2022	3/4%	12,950,000.00 1/							359
NOTE - SEE ALSO PROJECT PREPARATION CREDITS ON PAGE 11													
					TOTAL	94,350,000.00	1,830,751.26			23,230,751.26	11,852,639.02	11,378,112.24	SO
SRI LANKA ¤CE¤													
LIFT IRRIGATION PROJECT	121	J/J 15	JUNE 19, 1968	1978-2018	3/4%	3,000,000.00	199,933.60			2,199,933.60	1,298,111.58	901,822.02	121
HIGHWAY PROJECT	133	F/A 1	NOV. 12, 1968	1979-2018	3/4%	4,900,000.00	128,857.67	4,275,521.43		753,336.24	753,336.24		133
DRAINAGE AND RECLAMATION PROJECT	168	M/N 1	NOV. 13, 1969	1979-2019	3/4%	2,500,000.00	135,344.61			2,635,344.61	933,470.30	1,701,874.31	168
MAHAWELI GANGA DEVELOPMENT PROJECT	174	F/A 1	JAN. 30, 1970	1980-2019	3/4%	14,500,000.00	957,954.69			15,457,954.69	8,076,384.64	7,381,570.05	174
FIFTH POWER PROJECT	372	M/S 15	APR. 18, 1973	1983-2023	3/4%	6,000,000.00 1/							372
					TOTAL	29,900,000.00	1,422,090.57	4,275,521.43		21,046,569.14	11,061,302.76	9,985,266.38	CE

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

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Member in whose territories Development Credits have been made (Program or project)	Development Credits number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustment[2]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[3]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credits number
						$	$	$	$	$	$		
SUDAN #SUN													
ROSEIRES IRRIGATION PROJECT	2	J/J 15	JUNE 14, 1961	1971-2011	3/4%	19,000,000.00	2,509,696.87	633,197.93	267,680.96	14,608,817.98	14,876,498.94		2
EDUCATION PROJECT	122	F/A 1	JUNE 24, 1968	1978-2018	3/4%	8,500,000.00	48,765.93			8,548,765.93	575,565.21	7,973,200.72	122
SECOND MECHANIZED FARMING PROJECT	311	J/J 1	JUNE 12, 1972	1982-2022	3/4%	11,250,000.00				11,250,000.00		11,250,000.00	311
HIGHWAY PROJECT	331	J/J 15	SEP. 29, 1972	1982-2022	3/4%	7,000,000.00				7,000,000.00	252,346.19	6,747,653.81	331
RAHAD IRRIGATION PROJECT	364	F/A 1	MAR. 30, 1973	1983-2023	3/4%	42,000,000.00 1/							364
					TOTAL	81,750,000.00	2,558,462.80	633,197.93	267,680.96	41,407,583.91	15,704,410.34	25,970,854.53	SU
SWAZILAND #SWN													
HIGHWAY CONSTRUCTION	20	M/N 1	MAR. 14, 1962	1972-2011	3/4%	2,800,000.00	573,186.40		44,399.88	3,328,786.52	3,373,186.40		20
					TOTAL	2,800,000.00	573,186.40		44,399.88	3,328,786.52	3,373,186.40		SW
SYRIA #SYR													
HIGHWAY IMPROVEMENT	46	J/D 1	DEC. 24, 1965	1975-2015	3/4%	8,500,000.00	1,436,649.74						
SECOND HIGHWAY PROJECT	298	J/D 1	APR. 17, 1972	1982-2021	3/4%	13,800,000.00				9,936,649.74	8,658,212.15	1,278,437.59	46
DAMASCUS WATER SUPPLY PROJECT	401	J/D 1	JUNE 22, 1973	1983-2023	3/4%	15,000,000.00 1/				13,800,000.00		13,800,000.00	298
					TOTAL	37,300,000.00	1,436,649.74			23,736,649.74	8,658,212.15	15,078,437.59	401
TANZANIA #TAN													SYR
SCHOOL CONSTRUCTION AND EQUIPMENT	48	M/N 15	DEC. 19, 1965	1975-2015	3/4%	4,600,000.00	949,183.94			5,549,183.94	5,549,183.94		
HIGHWAY PROJECT	48	F/A 1	FEB. 5, 1964	1974-2013	3/4%	14,000,000.00	2,888,820.58			16,888,820.58	16,888,820.58		48
AGRICULTURAL CREDIT PROJECT	80	A/O 1	JAN. 13, 1966	1975-2015	3/4%	5,000,000.00	1,031,721.73			6,031,721.73	6,031,721.73		48
HIGHWAY PROJECT - SUPPLEMENTARY	115	F/A 1	MAR. 21, 1968	1978-2017	3/4%	3,000,000.00	485,679.56			3,485,679.56	3,038,457.24	447,222.32	86
BEEF RANCHING DEVELOPMENT PROJECT	132	M/S 1	OCT. 31, 1968	1978-2018	3/4%	1,300,000.00	205,934.69			1,505,934.69	1,377,812.76	128,121.93	115
SECOND HIGHWAY PROJECT	142	M/S 1	FEB. 24, 1969	1979-2018	3/4%	8,000,000.00	3,198,337.13			11,198,337.13	10,698,337.13		132
SECOND HIGHWAY PROJECT	142	M/S 1	NOV. 24, 1969	1979-2018	3/4%	7,500,000.00				7,500,000.00			142
SECOND EDUCATION PROJECT	149	J/D 15	MAY 29, 1969	1978-2018	3/4%	5,000,000.00	300,796.61			5,300,796.61	2,510,122.88	2,790,673.73	142
FLUE - CURED TOBACCO PROJECT	217	A/O 1	OCT. 9, 1970	1980-2020	3/4%	9,000,000.00	71,687.90			9,071,687.90	1,099,470.67	7,972,217.23	149
THIRD EDUCATION PROJECT	232	A/O 15	FEB. 5, 1971	1981-2020	3/4%	3,300,000.00				3,300,000.00		3,300,000.00	217
THIRD HIGHWAY PROJECT	265	M/S 1	AUG. 6, 1971	1982-2021	3/4%	6,500,000.00	12,525.74			6,512,525.74	178,787.75	6,333,737.99	252
SMALLHOLDER TEA DEVELOPMENT PROJECT	287	F/A 1	MAR. 3, 1972	1982-2021	3/4%	10,800,000.00	41,707.20			10,841,707.20	860,505.61	9,981,201.59	265
FOURTH EDUCATION PROJECT	371	F/A 1	APR. 13, 1973	1983-2023	3/4%	10,300,000.00 1/							287
SECOND LIVESTOCK DEVELOPMENT PROJECT	382	M/N 1	MAY 23, 1973	1983-2022	3/4%	18,500,000.00 1/							371
					TOTAL	106,800,000.00	9,186,393.08			87,186,393.08	56,228,220.09	30,958,172.99	382
THAILAND #THA													TA
THIRD EDUCATION PROJECT	369	J/J 1	APR. 11, 1973	1983-2023	3/4%	19,500,000.00 1/							369
CHAO PHYA IRRIGATION IMPROVEMENT PROJECT	379	J/J 1	MAY 9, 1973	1983-2023	3/4%	5,500,000.00 1/							379
					TOTAL	25,000,000.00							TH
TOGO #TOH													
HIGHWAY MAINTENANCE PROJECT	131	J/J 15	OCT. 10, 1968	1978-2018	3/4%	3,780,000.00	615,493.75			4,395,493.75	3,856,307.91	459,185.84	131
					TOTAL	3,780,000.00	615,493.75			4,395,493.75	3,856,307.91	459,185.84	TO
TUNISIA #TUN													
EDUCATION PROJECT	29	M/N 15	SEPT. 17, 1962	1972-2012	3/4%	5,000,000.00	1,000,488.61	137,401.96	52,329.09	5,810,755.56	5,863,084.65		29
SECOND EDUCATION PROJECT	94	M/N 15	SEPT. 16, 1966	1976-2016	3/4%	13,000,000.00	2,026,301.29	1,100,000.00		13,926,301.29	11,846,301.29	2,080,000.00	94
COOPERATIVE FARM PROJECT	99	A/O 15	FEB. 21, 1967	1977-2016	3/4%	6,000,000.00	564,437.10	2,900,000.00		3,664,437.10	3,483,607.59	180,829.51	99
RAILWAY PROJECT	150	A/O 15	JUNE 4, 1969	1979-2019	3/4%	8,500,000.00	1,409,795.85			9,909,795.85	9,909,795.85		150
SECOND WATER SUPPLY PROJECT	209	M/N 15	JUNE 30, 1970	1980-2020	3/4%	10,500,000.00	39,626.89			10,539,626.89	1,169,067.01	9,370,559.88	209
POPULATION PROJECT	238	M/N 15	APR. 5, 1971	1981-2020	3/4%	4,800,000.00	7,617.96			4,807,617.96	194,307.72	4,613,310.24	238
AGRICULTURAL CREDIT PROJECT	263	M/S 15	JULY 12, 1971	1981-2020	3/4%	9,000,000.00	152,447.22			9,152,447.22	1,678,266.67	1,474,180.55	263
FISHERIES PROJECT	270	A/O 15	SEPT. 24, 1971	1981-2021	3/4%	2,000,000.00				2,000,000.00		2,000,000.00	270
TOURISM INFRASTRUCTURE PROJECT	329	M/S 1	SEP. 28, 1972	1982-2022	3/4%	10,000,000.00				10,000,000.00		10,000,000.00	329
					TOTAL	62,800,000.00	5,200,712.92	4,137,401.96	52,329.09	63,810,981.87	34,144,430.78	29,718,880.18	TUN
TURKEY #TUN													
DEVELOPMENT OF PRIVATE INDUSTRY	33	M/N 15	NOV. 23, 1962	1975-2012	3/4%	5,000,000.00	1,001,992.85	144,073.99	26,410.99	5,831,507.87	5,857,918.86		33
CUKUROVA POWER PROJECT	34	M/N 15	FEB. 1, 1965	1973-2012	3/4%	14,700,000.00	350,384.56	1,942.43	9,228.54	2,039,213.59	2,048,442.13		34
SEYHAN IRRIGATION PROJECT	38	J/D 1	MAY 31, 1963	1973-2012	3/4%	20,000,000.00	4,112,340.34	70,494.91	108,085.79	23,933,759.64	24,041,845.43		38
SECOND CUKUROVA POWER PROJECT	59	F/A 1	JULY 16, 1964	1974-2014	3/4%	24,000,000.00	4,952,263.92			28,952,263.92	28,952,263.92		59
DEVELOPMENT OF PRIVATE INDUSTRY	66	M/N 15	AUG. 31, 1964	1974-2014	3/4%	5,000,000.00	1,020,471.83	34,519.95		5,965,951.88	5,965,951.88		59
DEVELOPMENT OF PRIVATE INDUSTRY	75	M/N 15	APRIL 1, 1965	1975-2014	3/4%	10,000,000.00	2,053,677.13	47,329.74		12,006,347.39	12,006,347.39		66
													75

INTERNATIONAL DEVELOPMENT ASSOCIATION

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						$	$	$	$	$	$	$	
DEVELOPMENT OF PRIVATE INDUSTRY	91	A/O 1	AUG. 30, 1966	1976-2015	3/4%	15,000,000.00	3,081,618.07	65,651.99		18,015,966.12	18,015,966.12		91
CEYLON IRRIGATION PROJECT - STAGE II	143	J/B 1	FEB. 22, 1968	1978-2018	3/4%	12,000,000.00	2,154,285.98			14,154,285.98	13,981,318.70	172,967.28	143
INTENSIVE DAIRY PRODUCTION PROJECT	236	A/O 1	FEB. 22, 1971	1981-2020	3/4%	4,500,000.00	3,104.16			4,503,104.16	63,741.86	4,439,362.30	236
FRUIT & VEGETABLE EXPORT PROJECT	257	A/O 1	JUNE 22, 1971	1981-2021	3/4%	15,000,000.00	9,307.03			15,009,307.03	139,266.53	14,870,040.50	257
IRRIGATION REHABILITATION & COMPLETION PROJECT	281	A/O 1	JAN. 25, 1972	1982-2021	3/4%	18,000,000.00				18,000,000.00		18,000,000.00	281
INSTANBUL URBAN DEVELOPMENT PROJECT	324	A/O 1	JUNE 30, 1972	1982-2022	3/4%	2,300,000.00				2,300,000.00		2,300,000.00	324
SECOND LIVESTOCK DEVELOPMENT PROJECT	330	A/O 1	SEP. 28, 1972	1982-2021	3/4%	16,000,000.00				16,000,000.00	9,107.40	15,994,892.60	330
CEYLON ASLANTAS MULTI-PURPOSE PROJECT	360	M/N 15	MAR. 22, 1973	1983-2022	3/4%	50,000,000.00 ⊥/							360
					TOTAL	178,500,000.00	18,739,445.87	384,012.97	143,725.32	166,711,707.58	111,058,170.22	55,797,262.68	TU
UGANDA #UG#													
EDUCATION PROJECT	101	M/S 1	APR. 21, 1967	1977-2017	3/4%	10,000,000.00	1,879,480.31			11,879,480.31	11,252,407.90	627,072.41	101
ROADS PROJECT	108	A/O 1	JULY 28, 1967	1977-2017	3/4%	5,000,000.00	916,087.94			5,916,087.94	5,355,696.04	560,391.90	108
TEA GROWERS CORP. PROJECT	109	F/A 1	SEPT.19, 1967	1977-2017	3/4%	3,400,000.00	625,707.97	268,987.55		3,756,720.42	3,756,720.42		109
BEEF RANCHING DEVELOPMENT PROJECT	130	M/S 15	OCT. 5, 1968	1978-2018	3/4%	3,000,000.00	498,437.30			3,498,437.30	2,913,998.18	584,439.12	130
SECOND ROAD PROJECT	164	M/S 15	SEPT.29, 1969	1980-2019	3/4%	11,600,000.00	1,432,534.16			13,032,534.16	10,170,350.29	2,862,183.87	164
SMALLHOLDER TOBACCO PROJECT	212	M/S 15	JULY 24, 1970	1980-2020	3/4%	4,000,000.00	158,804.98			4,158,804.98	1,762,050.57	2,396,754.41	212
SECOND EDUCATION PROJECT	258	M/S 15	JUNE 23, 1971	1981-2021	3/4%	7,300,000.00				7,300,000.00		7,300,000.00	258
					TOTAL	44,300,000.00	5,511,052.66	268,987.55		49,542,065.11	35,211,223.40	14,330,841.71	UG
UPPER VOLTA #UV#													
TELECOMMUNICATIONS PROJECT	141	A/O 15	FEB. 18, 1969	1979-2018	3/4%	800,000.00	68,005.31			868,005.31	665,528.70	202,476.61	141
COTTON PROJECT	225	A/O 1	DEC. 30, 1970	1981-2020	3/4%	6,200,000.00	136,570.10			6,336,570.10	1,717,536.57	4,619,033.53	225
ROAD PROJECT	316	A/O 1	JUNE 26, 1972	1982-2022	3/4%	2,800,000.00				2,800,000.00		2,800,000.00	316
RURAL DEVELOPMENT FUND PROJECT	317	A/O 1	JUNE 26, 1972	1982-2022	3/4%	2,200,000.00				2,200,000.00		2,200,000.00	317
					TOTAL	12,000,000.00	204,575.41			12,204,575.41	2,383,065.27	9,821,510.14	UV
YEMEN ARAB REPUBLIC #YAR#													
HIGHWAY PROJECT	315	J/J 15	JUNE 26, 1972	1982-2022	3/4%	7,700,000.00				7,700,000.00	252,914.45	7,447,085.55	315
TIHAMA DEVELOPMENT PROJECT	376	F/A 15	MAY 7, 1973	1983-2023	3/4%	10,900,000.00 ⊥/							376
					TOTAL	18,600,000.00				7,700,000.00	252,914.45	7,447,085.55	YAR
YEMEN, PEOPLES DEMOCRATIC REPUBLIC OF #YDR#													
HIGHWAY PROJECT	240	M/N 15	APR. 21, 1971	1981-2020	3/4%	14,600,000.00	91,063.73			1,691,063.73	712,018.28	979,045.45	240
FISHERIES PROJECT	370	A/O 15	APR. 12, 1973	1983-2022	3/4%	3,500,000.00 ⊥/							370
					TOTAL	5,100,000.00	91,063.73			1,691,063.73	712,018.28	979,045.45	YDR
ZAIRE #ZR#													
HIGHWAY	152	J/D 15	JUNE 9, 1969	1979-2018	3/4%	6,000,000.00	801,917.28			6,801,917.28	5,674,740.15	1,127,177.13	152
DEVELOPMENT FINANCE COMPANY PROJECT	190	J/D 15	MAY 28, 1970	1980-2019	3/4%	5,000,000.00	600,024.85			5,600,024.85	4,789,214.59	810,810.26	190
RIVER TRANSPORT PROJECT	255	M/S 15	JUNE 21, 1971	1981-2021	3/4%	7,000,000.00	36,590.61			7,036,590.61	585,334.56	6,451,256.05	255
SECOND DEVELOPMENT FINANCE COMPANY PROJECT	271	J/D 15	SEPT.24, 1971	1981-2021	3/4%	10,000,000.00	14,924.31			10,014,924.31	1,638,532.57	8,376,391.74	271
EDUCATION PROJECT	272	J/D 15	DEC. 17, 1971	1981-2021	3/4%	4,500,000.00	183.28			4,500,183.28	1,832.84	4,498,350.44	272
SECOND HIGHWAY PROJECT	292	J/D 15	MAR. 23, 1972	1982-2021	3/4%	19,000,000.00	50,981.30			19,050,981.30	1,152,925.52	17,898,055.78	292
LIVESTOCK DEVELOPMENT PROJECT	398	J/D 15	JUNE 21, 1973	1983-2022	3/4%	8,500,000.00 ⊥/							398
					TOTAL	62,000,000.00	1,504,621.63			55,004,621.63	13,842,580.25	41,162,041.40	CK
DEVELOPMENT CREDIT TOTAL						$ 5,767,044,000.00	$ 684,084,844.67	$ 181,701,137.54	$ 4,927,687.67	$ 5,003,150,219.46	$ 3,208,325,734.47	$ 1,799,851,972.66	

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made / program or project	Develop-ment Credit number	Semi-annual payments dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustment[1]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[1]	Principal amount disbursed[1]	Undisbursed balance of effective Development Credits[1]	Develop-ment Credit number
						$	$	$	$	$	$	$	
DEVELOPMENT OF PRIVATE INDUSTRY	91	A/O 1	AUG. 10, 1966	1976-2015	3/4%	15,000,000.00	3,081,618.07	65,651.95		18,015,966.12	18,015,966.12		91
SEYHAN IRRIGATION PROJECT - STAGE II	143	J/O 1	FEB. 28, 1969	1979-2018	3/4%	12,000,000.00	2,154,285.98			14,154,285.98	13,981,316.70	172,967.28	143
INTENSIVE DAIRY PRODUCTION PROJECT	236	A/O 1	FEB. 22, 1971	1981-2020	3/4%	4,500,000.00	3,104.16			4,503,104.16	43,741.86	4,459,362.30	236
FRUIT & VEGETABLE EXPORT PROJECT	257	A/O 1	JUNE 22, 1971	1981-2021	3/4%	15,000,000.00	9,307.03			15,009,307.03	139,266.53	14,870,040.50	257
IRRIGATION REHABILITATION & COMPLETION PROJECT	281	A/O 1	JAN. 25, 1972	1982-2021	3/4%	18,000,000.00				18,000,000.00		18,000,000.00	281
INSTANBUL URBAN DEVELOPMENT PROJECT	324	A/O 1	JUNE 30, 1972	1982-2022	3/4%	2,300,000.00				2,300,000.00		2,300,000.00	324
SECOND LIVESTOCK DEVELOPMENT PROJECT	330	A/O 1	SEP. 28, 1972	1982-2021	3/4%	16,000,000.00				16,000,000.00	5,107.40	15,994,892.60	330
CEYHAN ASLANTAS MULTI-PURPOSE PROJECT	360	M/N 15	MAR. 22, 1973	1983-2022	3/4%	30,000,000.00 1/							360
					TOTAL	178,500,000.00	18,739,445.87	384,012.97	143,725.32	166,711,707.58	111,058,170.22	55,797,262.68	TU
UGANDA #UGA													
EDUCATION PROJECT	101	M/S 1	APR. 21, 1967	1977-2017	3/4%	10,000,000.00	1,879,480.31			11,879,480.31	11,252,407.90	627,072.41	101
ROADS PROJECT	108	A/O 1	JULY 28, 1967	1977-2017	3/4%	9,000,000.00	916,087.94			9,916,087.94	9,355,696.04	560,391.90	108
TEA GROWERS CORP. PROJECT	109	F/A 1	SEPT.15, 1967	1977-2017	3/4%	3,400,000.00	425,707.97	268,987.55		3,756,720.42	3,756,720.42		109
BEEF RANCHING DEVELOPMENT PROJECT	130	M/S 15	OCT. 5, 1968	1978-2018	3/4%	3,000,000.00	498,437.30			3,498,437.30	2,913,998.18	584,439.12	130
SECOND ROAD PROJECT	164	M/S 15	SEPT.29, 1969	1980-2019	3/4%	11,600,000.00	1,432,534.16			13,032,534.16	10,170,350.29	2,862,183.87	164
SMALLHOLDER TOBACCO PROJECT	212	M/S 15	JULY 24, 1970	1980-2020	3/4%	4,000,000.00	158,804.98			4,158,804.98	1,762,050.57	2,396,754.41	212
SECOND EDUCATION PROJECT	258	M/S 15	JUNE 29, 1971	1981-2021	3/4%	7,300,000.00				7,300,000.00		7,300,000.00	258
					TOTAL	44,300,000.00	5,511,052.66	268,987.55		49,542,065.11	35,211,223.40	14,330,841.71	UG
UPPER VOLTA #UVo													
TELECOMMUNICATIONS PROJECT	161	A/O 15	FEB. 18, 1969	1979-2018	3/4%	800,000.00	68,005.31			868,005.31	665,528.70	202,476.61	161
COTTON PROJECT	225	A/O 1	DEC. 30, 1970	1981-2020	3/4%	6,200,000.00	136,570.10			6,336,570.10	1,717,536.57	4,619,033.53	225
ROAD PROJECT	316	A/O 1	JUNE 26, 1972	1982-2022	3/4%	2,800,000.00				2,800,000.00		2,800,000.00	316
RURAL DEVELOPMENT FUND PROJECT	317	A/O 1	JUNE 26, 1972	1982-2022	3/4%	2,200,000.00				2,200,000.00		2,200,000.00	317
					TOTAL	12,000,000.00	204,575.41			12,204,575.41	2,383,065.27	9,821,510.14	UV
YEMEN ARAB REPUBLIC #YAR#													
HIGHWAY PROJECT	315	J/J 15	JUNE 26, 1972	1982-2022	3/4%	7,700,000.00				7,700,000.00	252,914.45	7,447,085.55	315
TIHAMA DEVELOPMENT PROJECT	376	F/A 15	MAY 7, 1973	1983-2023	3/4%	10,900,000.00 1/							376
					TOTAL	18,600,000.00				7,700,000.00	252,914.45	7,447,085.55	YAR
YEMEN, PEOPLES DEMOCRATIC REPUBLIC OF #YDR#													
HIGHWAY PROJECT	240	M/N 15	APR. 21, 1971	1981-2020	3/4%	1,800,000.00	91,063.73			1,691,063.73	712,018.28	979,045.45	240
FISHERIES PROJECT	370	A/O 15	APR. 12, 1973	1983-2022	3/4%	3,500,000.00 1/							370
					TOTAL	5,100,000.00	91,063.73			1,691,063.73	712,018.28	979,045.45	YDR
ZAIRE #ZR#													
HIGHWAY	152	J/D 15	JUNE 9, 1969	1979-2018	3/4%	6,000,000.00	801,917.28			6,801,917.28	5,674,740.15	1,127,177.13	152
DEVELOPMENT FINANCE COMPANY PROJECT	190	J/D 15	MAY 28, 1970	1980-2019	3/4%	5,600,000.00	600,024.85			6,200,024.85	4,789,214.59	810,810.26	190
RIVER TRANSPORT PROJECT	255	M/S 15	JUNE 21, 1971	1981-2021	3/4%	7,000,000.00	36,590.61			7,036,590.61	585,334.56	6,451,256.05	255
SECOND DEVELOPMENT FINANCE COMPANY PROJECT	271	J/D 15	SEPT.24, 1971	1981-2021	3/4%	10,000,000.00	14,924.31			10,014,924.31	14,638,532.57	8,376,391.74	271
EDUCATION PROJECT	272	J/D 15	DEC. 17, 1971	1981-2021	3/4%	6,500,000.00	183.28			6,500,183.28	1,832.84	6,498,350.44	272
SECOND HIGHWAY PROJECT	292	J/D 15	MAR. 23, 1972	1982-2021	3/4%	19,000,000.00	50,981.30			19,050,981.30	1,152,925.52	17,898,055.78	292
LIVESTOCK DEVELOPMENT PROJECT	398	J/D 15	JUNE 21, 1973	1983-2022	3/4%	8,500,000.00 1/							398
					TOTAL	62,000,000.00	1,504,621.63			55,004,621.63	15,842,580.23	41,162,041.40	CK
DEVELOPMENT CREDIT TOTAL						$ 5,767,044,000.00	$ 484,084,844.67	$ 181,701,137.54	$ 4,927,487.67	$ 5,003,150,219.46	$ 3,208,325,734.47	$ 1,799,851,972.86	

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made / Program or project	Development Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustment[1]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[2]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
PROJECT PREPARATION CREDITS													
BANGLADESH #BD#													
IRRIGATION ENGINEERING PROJECT	814	M/N 1	APR. 9, 1973	1975-1982	3/4%	3,150,000.00 1/							14
					TOTAL	3,150,000.00							BD
BURUNDI #BU#													
HIGHWAY ENG. PROJECT	811	J/D 15	JUNE 19, 1970	1972-1980	3/4%	380,000.00	72,991.34		25,704.26	427,287.08	452,175.64	815.70	11
					TOTAL	380,000.00	72,991.34		25,704.26	427,287.08	452,175.64	815.70	BU
CAMEROON #CM#													
HIGHWAY ENG. PROJECT	S 3		JAN. 29, 1968		3/4%	550,000.00		550,000.00					3
					TOTAL	550,000.00		550,000.00					CM
CONGO, THE PEOPLES REPUBLIC OF THE #COB#													
HIGHWAY ENG. PROJECT	S 6		MAY 26, 1969		3/4%	630,000.00		590,625.00	39,375.00		39,375.00		6
					TOTAL	630,000.00		590,625.00	39,375.00		39,375.00		COB
EGYPT, ARAB REPUBLIC OF #UAR#													
COTTON GINNING REHABILITATION PROJECT	813	A/O 15	NOV. 17, 1972	1975-1982	3/4%	175,000.00				175,000.00		175,000.00	13
					TOTAL	175,000.00				175,000.00		175,000.00	UAR
GHANA #GH#													
HIGHWAY ENG. PROJECT	S 7	J/D 15	JULY 29, 1969	1971-1979	3/4%	1,500,000.00	227,158.75	189,041.52	375,058.58	1,163,058.65	1,538,117.23		7
					TOTAL	1,500,000.00	227,158.75	189,041.52	375,058.58	1,163,058.65	1,538,117.23		GH
KOREA #KO#													
TRANSPORT PROJECT	S 4		JULY 24, 1968		3/4%	3,500,000.00		3,500,000.00					4
					TOTAL	3,500,000.00		3,500,000.00					KO
MALAWI #MAI#													
HIGHWAY ENG. PROJECT	S 2		OCT. 4, 1966		3/4%	490,000.00		490,000.00					2
					TOTAL	490,000.00		490,000.00					MAI
PAKISTAN #PAK#													
HIGHWAY ENG. PROJECT	S 1	J/J 15	AUG. 22, 1966	1969-1976	3/4%	1,000,000.00	80,188.53	122,550.86	532,832.53	424,805.14	957,637.67		1
IRRIGATION ENG. PROJECT	S 8	M/N 1	DEC. 15, 1969	1972-1980	3/4%	800,000.00	146,961.05	58,725.37	104,026.82	784,208.86	888,235.68		8
PORT ENG. PROJECT	S 9	M/N 1	JUNE 10, 1970	1972-1979	3/4%	1,000,000.00	63,460.33		189,485.19	873,975.14	607,625.43	455,834.90	9
IRRIGATION ENG. PROJECT	S10	M/N 1	JUNE 10, 1970	1973-1980	3/4%	2,400,000.00	277,279.54	1,051,323.11		1,625,956.43	1,625,956.43		10
					TOTAL	5,200,000.00	567,889.45	1,232,599.34	826,344.54	3,708,945.57	4,079,455.21	455,834.90	PAK
SOMALIA #SO#													
ENG. AND ACC. PROJECT	S 5	J/D 1	MAR. 3, 1969	1971-1978	3/4%	550,000.00	86,433.63		177,540.16	458,893.47	636,433.63		5
					TOTAL	550,000.00	86,433.63		177,540.16	458,893.47	636,433.63		SO
YEMEN, PEOPLES DEMOCRATIC REPUBLIC OF #YDR#													
HIGHWAY ENGINEERING PROJECT	812	M/N 15	NOV. 17, 1972	1975-1982	3/4%	560,000.00				560,000.00	81,259.35	478,740.65	12
					TOTAL	560,000.00				560,000.00	81,259.35	478,740.65	YDR
PROJECT PREPARATION CREDIT TOTAL						$ 16,685,000.00	$ 954,479.17	$ 6,552,265.86	$ 1,444,022.54	$ 6,493,184.77	$ 6,826,816.06	$ 1,110,391.25	
TOTAL CREDITS SIGNED						$ 5,785,729,000.00	$ 485,039,517.84	$ 188,253,403.40	$ 6,371,510.21	$ 5,009,643,404.23	$ 3,215,152,550.53	$ 1,800,962,363.91	

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made ☐ program or project	Development Credit number	Semi-annual payment dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount	Exchange Adjustment[2]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[3]	Principal amount disbursed[3]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
CREDITS APPROVED BUT NOT SIGNED:													
BURMA ☐ BA ☐													
INLAND WATER TRANSPORT PROJECT		F/A 1		1983 - 2023	3/4%	16,300,000.00							
THIRD RAILWAY PROJECT		F/A 1		1983 - 2023	3/4%	16,700,000.00							
CONGO, THE PEOPLES REPUBLIC OF THE ☐ COB ☐													
RAILWAY PROJECT		M/S 1		1982 - 2022	3/4%	600,000.00							
DAHOMEY ☐ DA ☐													
SECOND HIGHWAY PROJECT		J/J 15		1983 - 2023	1/4%	11,800,000.00							
ETHIOPIA ☐ ET ☐													
AGRICULTURAL MINIMUM PACKAGE PROJECT		F/A 1		1983 - 2023	3/4%	21,000,000.00							
AMIBARA IRRIGATION PROJECT		A/O 15		1983 - 2023	3/4%	17,000,000.00							
THIRD EDUCATION PROJECT		A/O 15		1983 - 2023	3/4%	10,000,000.00							
MALI ☐ MLI ☐													
EDUCATION PROJECT		J/J 15		1983 - 2023	3/4%	5,000,000.00							
PAKISTAN ☐ PAK ☐													
THIRD KARACHI PORT PROJECT		J/D 1		1983 - 2023	3/4%	18,000,000.00							
UPPER VOLTA ☐ UV ☐													
SECOND TELECOMMUNICATIONS PROJECT		A/O 15		1983 - 2023	3/4%	4,500,000.00							
EDUCATION PROJECT		A/O 15		1983 - 2023	3/4%	2,850,000.00							
						$ 123,750,000.00							
GRAND TOTAL						$ 5,907,479,000.00	$ 485,039,317.84	$ 188,253,403.40	$ 6,371,510.21	$ 5,009,643,404.23	$ 3,215,152,550.53	$ 1,800,962,363.91	

NOTE 1/ AGREEMENTS IN THE TOTAL AMOUNT OF $ 1,064,400,000.00 PROVIDING FOR THESE DEVELOPMENT CREDITS HAVE BEEN SIGNED BUT THE DEVELOPMENT CREDITS DO NOT BECOME EFFECTIVE AND DISBURSEMENTS THEREUNDER DO NOT START UNTIL THE BORROWER TAKES CERTAIN ACTION AND FURNISHES CERTAIN DOCUMENTS TO THE ASSOCIATION.

NOTE 2/ ADJUSTMENT TO REFLECT THE DEVALUATION OF THE UNITED STATES DOLLAR ON MAY 8, 1972 AND THE PROPOSED CHANGE IN THE PAR VALUE OF THE UNITED STATES DOLLAR ANNOUNCED ON FEBRUARY 13, 1973.

NOTE 3/ EXPRESSED IN TERMS OF THE UNITED STATES DOLLAR OF THE WEIGHT AND FINENESS IN EFFECT ON JANUARY 1, 1960 ADJUSTED TO REFLECT THE DEVALUATION OF THE UNITED STATES DOLLAR ON MAY 8, 1972 AND THE PROPOSED CHANGE IN THE PAR VALUE OF THE UNITED STATES DOLLAR ANNOUNCED ON FEBRUARY 13, 1973.

NOTE 4/ OF THE UNDISBURSED BALANCE, THE ASSOCIATION HAS ENTERED INTO IRREVOCABLE COMMITMENTS TO DISBURSE $ 2,876,920.16.

NOTE 5/ THE ASSOCIATION HAS ENTERED INTO AN AGREEMENT TO SELL $ 100,000.00 OF THIS DEVELOPMENT CREDIT.

CONTROLLER'S DEPARTMENT
ACCOUNTING DIVISION
JULY 12, 1973

INTERNATIONAL DEVELOPMENT ASSOCIATION

STATEMENT OF DEVELOPMENT CREDITS — JUNE 30, 1973

EXPRESSED IN UNITED STATES CURRENCY

Member in whose territories Development Credits have been made (program or project)	Development Credit number	Semi-annual payments dates	Date of Development Credit agreement	Maturities	Service charge rate	Original principal amount*	Exchange Adjustments[2]	Cancellations, terminations, and refundings	Principal repayments	Effective Development Credits held by Association[3]	Principal amount disbursed[4]	Undisbursed balance of effective Development Credits[4]	Development Credit number
						$	$	$	$	$	$		
CREDITS APPROVED BUT NOT SIGNED:													
BURMA ☐ BA ☐													
INLAND WATER TRANSPORT PROJECT		F/A 1		1983 - 2023	3/4%	16,300,000.00							
THIRD RAILWAY PROJECT		F/A 1		1983 - 2023	3/4%	16,700,000.00							
CONGO, THE PEOPLES REPUBLIC OF THE ☐ COB ☐													
RAILWAY PROJECT		M/B 1		1982 - 2022	3/4%	600,000.00							
DAHOMEY ☐ DA ☐													
SECOND HIGHWAY PROJECT		J/J 15		1983 - 2023	3/4%	11,800,000.00							
ETHIOPIA ☐ ET ☐													
AGRICULTURAL MINIMUM PACKAGE PROJECT		F/A 1		1983 - 2023	3/4%	21,000,000.00							
AWBARA IRRIGATION PROJECT		A/O 15		1983 - 2023	3/4%	17,000,000.00							
THIRD EDUCATION PROJECT		A/O 15		1983 - 2023	3/4%	10,000,000.00							
MALI ☐ MLI ☐													
EDUCATION PROJECT		J/J 15		1983 - 2023	3/4%	5,000,000.00							
PAKISTAN ☐ PAK ☐													
THIRD KARACHI PORT PROJECT		J/D 1		1983 - 2023	3/4%	18,000,000.00							
UPPER VOLTA ☐ UV ☐													
SECOND TELECOMMUNICATIONS PROJECT		A/O 15		1983 - 2023	3/4%	4,500,000.00							
EDUCATION PROJECT		A/O 15		1983 - 2023	3/4%	2,850,000.00							
						$ 123,750,000.00							
GRAND TOTAL						$ 5,907,479,000.00	485,039,317.84	188,253,403.40	6,371,510.21	5,009,643,404.23	3,215,152,550.53	1,800,962,363.91	

NOTE 1/ AGREEMENTS IN THE TOTAL AMOUNT OF $ 1,064,400,000.00 PROVIDING FOR THESE DEVELOPMENT CREDITS HAVE BEEN SIGNED BUT THE DEVELOPMENT CREDITS DO NOT BECOME EFFECTIVE AND DISBURSEMENTS THEREUNDER DO NOT START UNTIL THE BORROWER TAKES CERTAIN ACTION AND FURNISHES CERTAIN DOCUMENTS TO THE ASSOCIATION.

NOTE 2/ ADJUSTMENT TO REFLECT THE DEVALUATION OF THE UNITED STATES DOLLAR ON MAY 8, 1972 AND THE PROPOSED CHANGE IN THE PAR VALUE OF THE UNITED STATES DOLLAR ANNOUNCED ON FEBRUARY 13, 1973.

NOTE 3/ EXPRESSED IN TERMS OF THE UNITED STATES DOLLAR OF THE WEIGHT AND FINENESS IN EFFECT ON JANUARY 1, 1960 ADJUSTED TO REFLECT THE DEVALUATION OF THE UNITED STATES DOLLAR ON MAY 8, 1972 AND THE PROPOSED CHANGE IN THE PAR VALUE OF THE UNITED STATES DOLLAR ANNOUNCED ON FEBRUARY 13, 1973.

NOTE 4/ OF THE UNDISBURSED BALANCE, THE ASSOCIATION HAS ENTERED INTO IRREVOCABLE COMMITMENTS TO DISBURSE $ 2,876,920.16.

NOTE 5/ THE ASSOCIATION HAS ENTERED INTO AN AGREEMENT TO SELL $ 100,000.00 OF THIS DEVELOPMENT CREDIT.

CONTROLLER'S DEPARTMENT
ACCOUNTING DIVISION
JULY 12, 1973

Mr. PASSMAN. Could you put this in the record at this point?

When we refer to soft loans, we are actually talking about concessionary loans that could be paid back in dollars, but they could be repayable in dollars and still be soft loans on account of the concessionary terms, is that correct?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. When I talk about soft loans, we are not talking about foreign country counterpart funds.

Mr. Roybal.

Mr. ROYBAL. I would also like to have clarified the matter of callable capital. Is callable capital not a liability on the Treasury of the United States?

Mr. HENNESSY. It certainly is.

Mr. ROYBAL. Do we have any indication of what our proportional liability would be in the event it was necessary?

Mr. HENNESSY. Yes. If you figure that all the other members would pick up their proportionate share it would come out to 26 percent. If everyone else picked up their proportionate share then ours would be only 26 percent of the total which is shown in our books.

Mr. ROYBAL. Should they not pick up——

Mr. HENNESSY. Then it would run to 100 percent of that as each country defaulted on their part of the obligation, up to a limit of the amount of callable capital we had subscribed. What we are saying is if World Bank bonds defaulted tomorrow and all the member governments should pick up their share our share would be 26 percent.

If country one says no, then I suppose that would run through the remaining countries and if we were the only one left we would have to pick up 100 percent of the part we appropriated.

Mr. ROYBAL. What would happen if this country refused to put in their share?

Mr. HENNESSY. We would be in default just as the other governments would, and the bond holders would end up with a piece of paper.

Mr. ROYBAL. There isn't anything contractualized that would indicate that if the other countries would not assume the responsibility that we would have to put it in?

Mr. HENNESSY. No; it is a joint and several responsibility of all the member governments and we don't have a senior position or a junior position. We are all on an equal legal basis. There is very little basis in actual fact to think either that there would be a default or if the bonds were in default that these other countries, Japan, Germany, and the rest, would default, and not kick in their share.

Mr. ROYBAL. The callable capital has not at the present time been used in your——

Mr. HENNESSY. No; never been a default in the bonds, so they have never had to come back to us and say, "The World Bank hasn't paid this bond. You member governments have guaranteed it. Now you have to pay it."

The purpose of this was that it was seen that countries like Korea, or Nigeria, cannot go directly to the bond market, so they need to go through a funnel—the World Bank. They use the World Bank umbrella which in turn has the umbrella of the member governments. When they borrow the money there are conditions on it and the World Bank with our help and that of other governments sets conditions, the terms of loans, and types of project, and the rest, so it is a more

controlled type of borrowing than if they just floated a bond themselves in the market, which helps put controls on the use of the funds.

So there is a double purpose.

Mr. ROYBAL. That is all, Mr. Chairman.

Mr. YATES. Mr. Chairman.

Mr. PASSMAN. Mr. Yates.

MEMBERSHIP OF IDA

Mr. YATES. Thank you.

How long has IDA been in existence?

Mr. HENNESSY. 1960.

Mr. REYNOLDS. Since 1960.

Mr. YATES. Twelve years, coming into its 13th year. What did the developing nations do about getting their money before IDA came into the picture?

Mr. REYNOLDS. Well, the World Bank, of course, is considerably older. Many of them were borrowing from the World Bank prior to IDA coming into existence.

Mr. YATES. They were borrowing without concessional loans?

Mr. REYNOLDS. Well, there were also, of course, bilateral programs in existence prior to 1960.

Mr. HENNESSY. I think the short answer is most of them did without.

Mr. YATES. In other words, they couldn't borrow from the World Bank.

Mr. HENNESSY. Most of them couldn't borrow and afford to pay back.

The original IDA countries, some of those have graduated. They have gotten into the hard loan category. I think most of the smaller countries in Africa and Asia had no recourse. They did contract some World Bank loans but it was difficult for them to contract many because the repayment terms were so high and the interest rate was quite high.

Mr. YATES. Are all the nations that are members of the U.N. members of the World Bank?

Mr. REYNOLDS. No.

Mr. YATES. Why not?

Mr. HENNESSY. They haven't chosen to join, the Communist countries en bloc. The only members of the Communist bloc now are Rumania and Yugoslavia. Czechoslovakia was a member and withdrew in 1953 because they refused to supply information which the International Monetary Fund wanted and they withdrew from the Fund and the Bank at the same time.

Mr. YATES. Are all other nations members other than the so-called Communist nations?

Mr. HENNESSY. Are any others? Just Rumania and Yugoslavia.

Mr. YATES. My question was, are all other nations other than the Communist nations, excluding Rumania and Yugoslavia, members?

Mr. HENNESSY. I would say virtually all or there may be a couple of small ones, Micronesia or some of those.

Mr. YATES. Is that true of IDA as well?

Mr. REYNOLDS. No, because there are 10 member countries that are members of the World Bank who are not members of IDA.

Mr. YATES. Can you tell me which they are?

Mr. REYNOLDS. Right offhand I can't but I can certainly furnish it for the record.

[The information follows:]

IBRD MEMBERS WHO ARE NOT MEMBERS OF IDA

Bahrain, Jamaica, New Zealand, Portugal, Qatar, Rumania, Singapore, United Arab Emirates, Uruguay, and Venezuela.

Mr. YATES. Is Israel a member of IDA?

Mr. HENNESSY. They are a member but they are not a borrowing country because their income is too high. Apparently not.

Mr. PASSMAN. You use the word "apparently."

Mr. HENNESSY. Israel will not contribute to this one but is participating in the next round.

Mr. PASSMAN. But they are not eligible for loans out of IDA?

Mr. HENNESSY. They are not.

U.S. COMMITMENT TO IDA 3

Mr. YATES. What happens if the Congress does not appropriate $320 million?

Mr. HENNESSY. In this particular case the United States would be in default, I guess you would have to say, in its international obligation. In this institution unlike the other two institutions we have discussed, the United States actually signed up last September for this 3-year replenishment. We signed up 1 year late but nevertheless we did sign up after having the full authorization, the first appropriation, and after full communication and contact by the Secretary of the Treasury with the different subcommittee and committee chairmen.

Mr. PASSMAN. Would the gentleman yield?

Mr. YATES. Yes.

Mr. PASSMAN. Do you do so with the full understanding of these people that this is dependent entirely on the subsequent appropriation?

Mr. HENNESSY. They understand that in spite of that the Congress——

Mr. PASSMAN. I know they understand, but do you understand it?

Mr. HENNESSY. Yes.

Mr. PASSMAN. They have that understanding with you, that this is being approved conditionally.

Mr. HENNESSY. Obviously, yes. They understand that.

Mr. PASSMAN. It would be up to the Congress as to what amount and whether you get anything.

Mr. HENNESSY. They understand that.

Mr. PASSMAN. So we would not be violating any legal commitment over any understanding with you if we didn't make the appropriation or if we cut the appropriation, is that correct?

Mr. HENNESSY. In this particular case, unlike the others, there is a different situation. They understand no matter what we say the appropriating committee and the Congress can always say no, but in this case we have made a formal international commitment.

Mr. PASSMAN. Would we be violating any legal commitment if we didn't appropriate the money?

Mr. HENNESSY. I believe we would but I am not a lawyer and I don't know if we would be under international law. Clearly under domestic law we wouldn't.

Mr. PASSMAN. Off the record.

[Discussion off the record.]

Mr. PASSMAN. Mr. Yates.

Mr. YATES. When you committed the U.S. Government to the payment of the three installments was congressional approval of that commitment sought, or is there no requirement for that?

Mr. HENNESSY. Yes; it was in several forms. It was I think quite clearly discussed and that is why the conference report stated it was not the intention of conference managers or chairmen to deny the 3-year appropriation.

They did push it off a year and subsequently direct consultations were carried out by the Secretary before he signed up because obviously he didn't want to sign up without people understanding what that involved in this particular case, so that I would say briefly, yes.

PROCUREMENT SHARES

Mr. YATES. The answer is yes. On page 3 of Mr. Reynolds' statement the following appears:

> It is estimated that in fiscal 1974 U.S. suppliers will receive contracts of roughly $130 million to provide goods and services for IDA financed projects, from past authorized loans, on which bidding is now taking place.

What is the equivalent amount that Japan receives?

Mr. REYNOLDS. The procurement share of Japan I think at the present time is roughly the same as the United States.

Mr. YATES. Are there others who are in that same category?

Mr. REYNOLDS. Germany I think is somewhat less. The British I think are roughly the same, yes. They are the four major supplying countries.

GENERAL ACCOUNTING OFFICE RECOMMENDATIONS

Mr. YATES. You make reference on page 8 that the recent GAO report on U.S. participation in the World Bank and IDA offered a number of suggestions.

Was the GAO report critical of the operation at all?

Mr. REYNOLDS. The GAO report, of course, looked primarily at U.S. participation in the World Bank rather than at the World Bank itself.

Mr. YATES. I am not talking about criticism of the World Bank. I am wondering about GAO criticism of your operation.

Mr. REYNOLDS. It did make several critical observations of the U.S. participation; yes.

Mr. YATES. Have those been corrected?

Mr. REYNOLDS. We are working on them. I think a great number have already been corrected.

Mr. YATES. Can you put into the record what the criticisms were and how you corrected them?

Mr. REYNOLDS. Yes.

[The information follows:]

Recommendation 1

More substantive information on proposed projects should be received earlier in the project preparation process in order to resolve questions at an early stage

As a result of Treasury Department efforts already under way at the time of the GAO review, there has been a significant increase in the timeliness and substantive nature of the information provided to the HAC member and participating agencies for use in the U.S. project appraisal process. Currently the HAC member and participating agencies receive the World Bank/IBA Monthly Operational Summary. This document is a compilation of basic information on all proposed projects. It contains information on the amount of the loan, whether it is expected to be from IBRD or IDA resources, the purpose of the loan, the stage of the Bank's processing of the loan, and any actions taken on procurement. Since the document contains considerable "substantive" information on a proposal and since a proposal is usually entered in the document at least 1 year before it is submitted to the Board of Directors for their approval, it is a basic source of information used in the United States appraisal process.

A new notification process has also been instituted. When a project makes its way through the Bank's evaluation process and is at a stage where negotiations between the Bank or the Association are warranted, the U.S. Executive Director's Office at the World Bank now formally advises the NAC member and participating agencies that such negotiations are about to begin. When the negotiations are substantially completed the Office of the U.S. Executive Director then transmits to the NAC a brief report prepared by the Bank on the status of the negotiations.

On the specific issue of procurement, a subject of increasing concern to the United States, a new early warning system was established over a year and a half ago whereby new projects listed in the Monthly Operational Summary are referred to our overseas posts. U.S. officials at these posts are instructed to follow up with the local borrowing agencies in order to obtain and furnish information to U.S. suppliers on potential export opportunities. This new information system has widened the access of U.S. business to international lending institution-generated procurement opportunities and, thus, improved their ability to compete aggressively for these export contracts. [See attached sample summary.]

Recommendation 2

Instructions to guide U.S. officials in appraising loan proposals should be developed

This recommendation was also contained in the Controller-General's report on U.S. participation in the Inter-American Development Bank [Report B–161470 dated August 22, 1972].

A formal codification of the procedures and policy criteria employed by the United States in the appraisal of the financial commitments, largely long-term development loans and credits, of the international lending institutions was recently completed by a special National Advisory Council (NAC) working group and approved by the members of the NAC.

The codification, which contains detailed information relating to documentation, personnel, procedures, and policy criteria employed by the various U.S. Government agencies, is available to officials in each of the NAC member and participating agencies who are involved in the loan appraisal process. The codification will be revised periodically to accommodate changes made in the appraisal process. A copy of the codification is attached.

Recommendation 3

Instructions requiring U.S. missions to obtain and furnish information on bank and association projects both proposed and being implemented should be developed

This recommendation was also contained in the Comptroller-General's report on U.S. participation in the Inter-American Development Bank [Report B–161470 dated August 22, 1972].

In response to the recommendation, an explicit reporting requirement has been added to recently issued economic reporting guidelines for U.S. missions

overseas and will be incorporated in several additional such guidelines expected to be disseminated shortly. This step will require periodic reporting from AID missions, or the Embassy's economic section if no AID mission exists, on both projects to be financed by international lending institutions and on the progress of implementation of projects already financed by these institutions.

This new reporting requirement will formalize one part of an established and very useful information system. AID, a NAC participating member in the loan appraisal process, has incorporated reports from AID missions on loans financed by the international lending institutions in its analysis of proposed projects and in its presentations at NAC meetings for many years. Another important component of the AID missions input in the U.S. appraisal process is its direct contacts with the appraisal missions sent by the international lending institutions to the recipient countries. These contacts have often resulted in marked improvement in the coordination of such projects with those supported by AID.

We do not interpret this recommendation calling for a formal reporting requirement nor the actions being taken to implement it as a desire for AID mission or Embassy economic section personnel to undertake indepth audits of existing or proposed projects or to otherwise duplicate the work of the professional staffs of the World Bank and the International Development Association. Nor do we understand it to propose any increase in U.S. staffs overseas. The objectives of these reports and direct contacts are to insure the most effective use of World Bank and IDA resources in the context of the other economic development programs in the recipient country, and to provide ongoing knowledge to the interested U.S. agencies in Washington of the field aspects of lending by the international lending institutions.

RECOMMENDATION 4

THE ESTABLISHMENT OF A REVIEW BODY OF SIZE AND COMPETENCE APPROPRIATE TO MEET THE NEED FOR EFFECTIVELY INDEPENDENTLY EVALUATING BANK AND ASSOCIATION ACTIVITIES SHOULD BE SOUGHT

The Bank and the Association established in September 1970 a joint evaluation group responsible to management which may satisfy the clear need outlined in this recommendation. We may say since the short time in which the group has operated makes an evaluation of the group's utility premature. So far, the two major studies prepared by the group have been excellent. We intend, however, to press for the adoption of an independent audit mechanism consistent with the GAO recommendation. Adoption will require approval of other member countries.

REPAYMENTS

Mr. YATES. Have there been any defaults at all in the IDA loans?

Mr. REYNOLDS. There have been no defaults, no.

Mr. HENNESSY. It is well to point out most of those loans are beginning to come due now, as you realize. It started 10 years ago.

Mr. YATES. Are those 10 years running out?

Mr. HENNESSY. Yes. And now——

Mr. REYNOLDS. Something like $5 million of repayments have come in now. They have just started.

HISTORY OF FOREIGN ASSISTANCE

Mr. PASSMAN. Thank you, Mr. Yates.

Mr. Hennessy, you wonder why I get so worked up over these hearings. At one time I had a rather pleasing personality.

Mr. YATES. How long ago?

Mr. PASSMAN. Not too long ago.

But a man who would sit here in this seat for 19 years and chair this committee and still be able to smile ought to be able to retire with three

times the average pension. Let me give you some indication as to why I take the position I do.

When this foreign aid program started in 1947 it was with an understanding that it would go into about 17 nations of the world, the total cost would not exceed $15 billion and it would take 5 years to complete the program. It took the older members who were well fortified with seniority to dare get up and say, after we finished this expensive World War, that we were embarking upon a foreign aid program. You could hear a pin drop, it was so fantastic that we would go out and borrow money to do this.

Contrast, if you will, 5 years with 26 years. Contrast, a total cost of $15 billion with about $250 billion. Contrast, if you will, 17 nations with 129 nations. We have gone into about every nation on the face of the earth with the U.S. foreign aid program. We have moved this program, past and present, into 129 nations of the world, and the cost is now about one quarter of a trillion dollars. The program has become so fragmentized and so complicated until it is very difficult to put your finger on the grand total requested for foreign aid each year.

I am sure you would agree that your first responsibility is to your own family, not your neighbor, and our first responsibility is to our own Government and not foreign governments. Following this line of thought, the foreign aid program is operating on borrowed money because you take care of your own household first before providing aid to some other nation.

The aid program has gotten so wild and so unruly, it is going to be up to the American people to step in and bring this thing back under control.

If you people would come in and endorse the bilateral program to selected nations so that some degree of control would be exercised, it would not be as bad but you request funds for the international organizations where control is limited and the funds are not paid back to the Treasury. You are asking this year for $1,234,380,000 for the international organizations, but if we go through the budget we find the request for the bilateral Development Loan Fund, which funds are paid back to the U.S. Treasury on shorter terms, is only $351 million.

In many instances you find the international financial institutions, the bilateral Development Loan Fund, and in some instances the outright grant program involved in the same type of program and maybe splitting up a project. Is that correct or not?

Mr. HENNESSY. You do get all three working in the same country.

Mr. PASSMAN. Can you, without drawing very heavily upon your imagination, pinpoint one iota of direct good that the International Development Association is doing for the United States?

Mr. HENNESSY. I think it's a loaded question.

Mr. PASSMAN. Loaded? It is as direct as I know how to ask it. It should be asked and there should be an answer given.

Mr. HENNESSY. Financing a lot of U.S. exports which wouldn't otherwise go out. I think Mr. Reynolds alluded to that in his statement.

Mr. PASSMAN. How do you know they wouldn't go out? That calls for another question. Let's look at the Asian Development Bank. According to the statement the other day the United States handles 8

percent of the commodity sales, and I believe the Japanese are getting 56 percent of the sales.

Mr. HENNESSY. That's correct. What I am saying is, in the Asian Development Bank we know we are going to get $100 million worth of sales we wouldn't otherwise get because these go to poor countries that don't have the capacity to import.

Mr. PASSMAN. All these countries do. We have a bilateral program going in all of them don't we?

Mr. HENNESSY. No, not in all.

Mr. PASSMAN. What countries other than the Communist countries?

Mr. HENNESSY. A number particularly in Asia and Africa.

Mr. PASSMAN. We are talking about IDA right now. What countries do not receive funds from the U.S. bilateral aid program but do receive funds from IDA?

Mr. HENNESSY. In Africa particularly. I don't have all of the list here. We do not operate bilaterally in all of the African countries and IDA does. I will be glad to submit that for the record. I do not believe we operate in Burma, do we, in the bilateral program?

Mr. PASSMAN. What funds you people can't provide will be provided through the U.N. aid programs. I am sure you know we are providing aid to Communist countries right out of U.S. dollars through the U.N. Even Cuba is getting money from the U.N. Development Fund and the United States provides money to this outfit. There is a budget request for over $2 billion for the maintenance of value payments to the international financial institutions.

This request is based on the fact that these institutions said:

> When the United States committed this money, it would buy a certain amount, but on account of the mismanagement of your own financial affairs, these dollars will no longer buy what they would buy when you committed them, and therefore we want you to sweeten the kitty by a subsequent appropriation of $2,250 million.

We must somewhere along the way try, if we can, to put some sense back into this foreign aid program. I could be persuaded to look long and hard at a request for a substantial increase in the bilateral Development Loan Fund, because we are able to control that fund.

As you said earlier, it does the same projects as are done under the multilateral organizations, and they have a remarkable repayment record.

I am told by Dr. Hannah that less than 1 percent of these funds are delinquent.

LOANS VERSUS GRANTS

If some recipient nations feel they have developed rapidly enough to start repaying what we had given as grant aid in the past, and move the program to a loan basis, would that sound acceptable to you?

Mr. HENNESSY. Yes, sir.

Mr. PASSMAN. Mr. Secretary, we are all concerned about the future.

I do know some of these nations are now willing to accept aid on a loan basis rather than on a grant-aid basis.

We refer to these nations as developing nations. Is it not true that 10, 15, 20, or 25 years from now these nations are actually going to be developed to where they have a self-sustaining economy and they are able to pay this U.S. aid back, or they will never be developed?

Is that a fair assessment of the situation?

Mr. ARMSTRONG. We certainly ought to know in 20 or 25 years.

Mr. PASSMAN. We want to make a record, because the American taxpayers some day may become a little more interested in what we are doing to them. Let's take the European nations just after World War II. I think when we started the economic aid plan, it was thought those nations were in such bad shape economically that it would be very foolish to think in terms of loans, so the aid was provided as outright grants. I believe we disbursed $32 billion to those nations. Does that sound about right to you, sir?

Mr. ARMSTRONG. It does, but I have forgotten the figures.

Mr. PASSMAN. In grant aid.

Mr. ARMSTRONG. We had both loans and grants.

Mr. PASSMAN. Very little loans. The loans made up about 6 percent of the $32 billion. Had we made these nations loans on the same basis as the IDA credit, where there is no interest with a 10-year grace period and in the second 10 years you pay 1 percent a year, then you start paying 3 percent a year for 30 years, we would now have been in the third phase where the European nations would be paying us 3 percent a year on that indebtedness.

Since all these nations now have a strong economy, don't you think they could now be paying 3 percent a year on the $32 billion provided by the United States?

Mr. ARMSTRONG. Sure.

Mr. PASSMAN. But what has happened? The United States provided most of the aid on a grant basis and they are waxing fat in wealth. They are making Mickey Mouse currency out of the dollar. We all know that these so-called developing nations could conceivably discover certain rich mineral deposits. If we are helping them to develop, and that is what we are supposed to be doing, I don't know why we shouldn't give serious thought to switching aid over to a loan basis rather than on a grant basis, other than certain programs such as family planning maybe and the bilateral technical aid.

WHY KEEP INCREASING CAPITAL TO IFI'S

I understand you have had some banking experience. I have had a little. I wonder how long stockholders would be interested in a bank if they never paid a dividend and every year they wanted to increase the capital by 50 or 100 percent. It would look like a pretty foolish bank, wouldn't it?

Mr. HENNESSY. It wouldn't be a commercial enterprise and we are not selling this one on that basis either.

Mr. PASSMAN. You couldn't do it with a clear conscience. Even you couldn't carry it that far, but you wouldn't have much confidence in a bank that never paid a dividend and constantly wanted to increase their stock. Why is it that we pour in billions of dollars into these organizations? It looks like they would finally have sufficient capital until they could carry on a normal operation without increasing the capital.

Where is the end coming? You mentioned earlier that when you ran out of this $960 million contract for IDA you were getting ready to negotiate another replenishment. Where is the stopping place?

Mr. HENNESSY. You are right in identifying these are ongoing programs, and in the soft window particularly you have to keep coming

back for appropriations and that is part and parcel of this. It is seen that the needs of the developing countries for low-cost, long-term loans will continue at least through this decade, and I think that is foreseen by everyone. We are not trying to deceive anyone on that point.

Mr. PASSMAN. I hope not. I hope you are wrong, because I don't think by the facts you could justify a dollar of this request. It is giving away our wealth to secure friends and it is a new concept in foreign policy. Foreign aid started after World War II.

NUMBER OF NATIONS TO RECEIVE IDA FUNDS

How many nations is the International Development Association going to disburse funds to in fiscal 1974?

Mr. HENNESSY. With all institutions combined, or just IDA?

Mr. PASSMAN. IDA.

Mr. REYNOLDS. I imagine 60 or 65, something like that, will receive credits from IDA. I could check on that.

DONOR IDENTIFICATION

Mr. PASSMAN. You have a very innocent face. I bet you are a church member, yes.

Mr. REYNOLDS. I belong to a church, yes.

Mr. PASSMAN. You contribute to your church?

Mr. REYNOLDS. Occasionally.

Mr. PASSMAN. Do you contribute anonymously or do you put your name on a slip?

Mr. REYNOLDS. When I contribute I don't do it anonymously.

Mr. PASSMAN. That is right, but that is what we are doing in IDA. The recipient knows not the donor. The donor knows not the recipient because when these funds go into that pot they are all commingled, and when the funds are disbursed, the recipient does not actually know what countries the money is coming from, do they?

Mr. REYNOLDS. Not which particular country. They know it's coming from IDA.

Mr. PASSMAN. You gave a good answer. Of course they don't.

Let's go back and refresh our memories when people would justify U.S. foreign aid expenditures by saying, "What we are trying to do is to win the minds of men so that they may know our system of Government." Do you remember those days in aid when we were trying to win the minds of men? How in the world are they going to win the minds of men if you have these funds so commingled that the recipient does not know the donor?

Mr. HENNESSY. They know the United States makes a major contribution to these institutions.

Mr. PASSMAN. But they don't know how much?

Mr. REYNOLDS. They know how much.

Mr. HENNESSY. We get just the opposite criticism that it's a tool of American imperialism. A couple of books have been written on that.

I have the international law people. I don't want to mislead you on the international question. I don't know if it is and I have asked the lawyer to come up and answer it so I won't mislead you.

REPLENISHMENT NEGOTIATIONS

Mr. PASSMAN. Who negotiates these contracts?

Mr. REYNOLDS. Representatives of the contributing governments.

Mr. PASSMAN. I am talking as far as the United States is concerned, who are the actual negotiators.

Mr. REYNOLDS. You are talking about the replenishment agreements to the institution?

Mr. PASSMAN. You are asking this committee for $320 million. Who previously negotiated the Replenishment Agreement we are now financing?

Mr. REYNOLDS. Representatives of the donor governments.

Mr. PASSMAN. I am only talking about the United States now.

Mr. REYNOLDS. On the agreement we are talking about here it was Mr. Hennessy's predecessor, the Assistant Secretary of the Treasury.

Mr. HENNESSY. He did the actual negotiation, and it was approved by the Secretary of the Treasury at that time, I guess it was David Kennedy.

Mr. PASSMAN. I am talking about this last contract. Was it Mr. Connally?

Mr. HENNESSY. These three here, the initial negotiations started back in 1970, as I recall, or in 1969. The international negotiations ended in 1971. It was then submitted to the Congress and it was authorized in 1972, so you had several people, but Mr. Kennedy was in at the initiation. Mr. Connally was in at the middle period, and the final signing was done by Mr. Shultz.

Mr. PASSMAN. We keep hearing the argument that we should provide the funds now and in the future we may not enter into further agreements but you are right on the verge of starting new negotiations, aren't you?

Mr. HENNESSY. We are in the process of international negotiations.

AFRICAN DEVELOPMENT BANK

Mr. PASSMAN. There is some thought now to creating one of these banks out in Africa, I believe it is called the African Development Bank. Is this a dream?

Mr. CONTE. It has been in the works for 15 years.

Mr. PASSMAN. I want to know whether it was a dream or whether it has been discussed.

Mr. HENNESSY. It is a reality. It is not a dream. It has been created. It was originally created by the Africans with only African donors. They then started discussions back in 1967 on the possibility of establishing a concessional lending fund. At the time President Johnson thought the United States should have a larger role in Africa. The United States participated in discussions with other Europeans and the Japanese to see whether we would participate in setting up an IDA-type fund in the African Bank. I personally participated through 2 years of negotiations.

We ended up with a formula which looked like it was reasonable from the U.S. point of view along with I think it was 14 other developed industrialized countries, and then in November of last year that fund came into being. After consulting with the Congress, and in view of the difficulty we have in funding current commitments, we backed away from that commitment. We said we are not going to sign up now.

We are going to have to wait and see where the whole thrust of our international economic policy is going. The 13 other developed countries went ahead, have made their contributions and are now members. The United States has not. We do have on the docket for discussions and consultations this year with the Congress whether in the Congress, wisdom it would make sense for the United States to make a $15 million contribution over a 3-year period, $5 million a year.

Mr. PASSMAN. I believe they came over here last year.

Mr. HENNESSY. That is right. The President spoke with you.

Mr. PASSMAN. The reason we didn't go into it was because they said, "You will either come in under these conditions or you won't come." Is that right?

Mr. HENNESSY. No, sir.

Mr. PASSMAN. They didn't discuss conditions altogether different than we have in IDA and the others?

Mr. HENNESSY. No, it's essentially the same agreement. I think we used IDA as a model. In fact they agreed to our request for 2 additional years to go into the fund with original membership status.

Mr. PASSMAN. That is what I thought they gave us, 2 years. They told us upon what basis we would get in.

Mr. HENNESSY. We helped negotiate those terms and conditions essentially the same as all of the other international institutions.

Mr. PASSMAN. It was such you didn't want to go in anyway?

Mr. HENNESSY. We thought the timing wasn't right. We couldn't meet our past commitments, understandings, agreements, whatever you want to call them. The timing wasn't right to go forward with this one. After consulting with various committees of the Congress and knowing your particular concerns about taking on added responsibilities in this period of economic difficulties we didn't do it.

Mr. PASSMAN. You have made me feel good.

Mr. HENNESSY. We are responsive. You may not think so but you do have an impact on us over time.

COMMERCIAL RELATIONSHIPS OF IDA RECIPIENTS

Mr. PASSMAN. Mr. Hennessy, many of these developing countries are former colonies, I believe, of some large European nation, are they not?

Mr. HENNESSY. A great majority of them are ex-colonies of a number of major powers.

Mr. PASSMAN. And I believe most of them do have very strong trade ties, do they not, with their mother nation, trade ties?

Mr. HENNESSY. Some more than others. Some have repudiated totally the ties and decided to do it on their own.

Mr. PASSMAN. Some of the larger ones do have close ties with the old mother country, don't they?

Mr. HENNESSY. Yes, they do.

Mr. PASSMAN. It's my understanding that the way the United Kingdom, France and some of the others got their funds for the International Development Association through the parliaments, was that they would say, "If we put up 12 percent, Uncle Sam will put up 40 percent." It was on that basis that they usually got these requests approved because they knew they would get a good deal of trade from their former colonies who were the recipients of these funds.

If I read the record correctly, the borrowing countries from IDA total 65.

Mr. HENNESSY. I think the borrowing countries were 60 to 65.

Mr. REYNOLD. Sixty-three is the total.

Mr. PASSMAN. I believe two nations get about 60 percent of the total. Do they not?

Mr. HENNESSY. That was before Pakistan was divided, so it has gone down somewhat now.

Mr. PASSMAN. The last record we have is what I am referring to. You haven't sent anything to Bangladesh yet, have you?

Mr. HENNESSY. Yes, last year.

Mr. PASSMAN. What is the total?

Mr. REYNOLDS. About 53 between India and Pakistan.

Mr. PASSMAN. These two nations, out of 63, got 52 percent of the total IDA credits. I believe for each $1 that India put in IDA, they draw out $44 and for each $1 contributed by Pakistan they draw out $52. The two countries were former colonies of the United Kingdom.

Mr. REYNOLDS. I believe, according to the 1972 annual report, Indian and Pakistan have received IDA credits of $2.3 billion out of a total of $3.8 billion.

I would like to see what these two nations have gotten out of Uncle Sam's bilateral aid program. Through fiscal year 1972, I believe our disbursements to India totaled $7,772,800,000. It certainly would appear that that is a pretty healthy helping out of our bilateral aid program. Then if we look at Pakistan, U.S. disbursements have totaled $4,434,900,000 through fiscal year 1972.

INTERNATIONAL FINANCE CORPORATION

Where does the International Finance Corporation get their capital?

Mr. HENNESSY. They also got it from member governments. I think they got an original contribution——

Mr. PASSMAN. Did they get it out of the World Bank the same as IDA?

Mr. HENNESSY. The original contribution to the IFC was made by member governments, the same as it was to the World Bank. The United States put in $35 million.

Mr. PASSMAN. How much did we contribute to the International Finance Corporation?

Mr. REYNOLDS. $35 million.

Mr. PASSMAN. How long ago?

Mr. REYNOLDS. When it was founded in 1957 or 1958, something like that.

Mr. PASSMAN. Are they operating successfully now, on a business-like basis, making sound loans, collecting interest, and living on the original contribution?

Mr. HENNESSY. They have a borrowing line of, I think, an additional $400 million from the Bank.

Mr. PASSMAN. But they have never come back to the Congress for replenishment, have they?

Mr. HENNESSY. They have not.

Mr. PASSMAN. What are their terms?

Mr. HENNESSY. They are primarily operating in the private sector. They make equity as well as loan investments. In other words, if international bankers want to do a project in Brazil, they may take 10 per-

cent of that, and so they are taking long-term equity participations which are of a different nature. They do make some loans, of course, but they are operating strictly with the private sector and private sector terms.

Mr. PASSMAN. What are the terms of their loans?

Mr. HENNESSY. They charge 9 or 9½ percent.

Mr. PASSMAN. How long?

Mr. HENNESSY. For 10 or 15 years.

Mr. REYNOLDS. Their loans go up to 10 years, more like 7 generally.

Mr. PASSMAN. But they can go up to 20, can they not?

Mr. REYNOLDS. No, not the IFC.

Mr. PASSMAN. What is the maximum?

Mr. REYNOLDS. The maximum I have seen is 12, somewhere in there. They lend at about 9 or 9½ percent at the moment.

INCOME TAX EXEMPTIONS

Mr. PASSMAN. It is my understanding that the employees of IDA and the World Bank are like the other international organizations, exempt from income tax?

Mr. REYNOLDS. Americans pay taxes. Most of the other nationalities are exempt from income tax.

Mr. PASSMAN. Is the income tax amount reimbursed to the Americans who pay income tax?

Mr. REYNOLDS. Americans receive a gross salary, just as they do in any other institution, out of which they pay taxes.

Mr. PASSMAN. Do they actually have their taxes withheld and paid to the U.S. Treasury?

Mr. REYNOLDS. No. It is paid to the individual who, in turn, pays the U.S. Treasury.

Mr. PASSMAN. They are compensated for any taxes they pay the U.S. Treasury, are they not?

Mr. REYNOLDS. If I may, Mr. Chairman, people who work for the World Bank, whether they are Americans or not Americans, receive a salary, which is stated on a net of taxes basis and is set at a level which reflects the fact that the taxes do not have to be paid out of them. In other words, they are considerably lower than they would have to be.

Mr. PASSMAN. In other words, they get a lower salary but they pay no taxes?

Mr. REYNOLDS. That is right.

Mr. PASSMAN. Don't you have a pretty weak case when you say on account of the peculiarities of this institution U.S. employees don't pay any taxes but they get a lower salary?

Let's just see what your predecessor said. You don't mind that, do you?

Mr. REYNOLDS. No.

Mr. PASSMAN. Let's take the time, because every year you get different answers from different witnesses. While this is being looked up, doesn't IDA operate with regard to employees like the other international organizations?

Mr. REYNOLDS. I can't answer as to them.

Mr. PASSMAN. Let me get at it this way.

Mr. REYNOLDS. They are basically the same, yes.

Mr. PASSMAN. Actually what you are saying is they don't pay any income tax but they get lower salaries. How could we run this Government if we would cut everybody's salary and nobody paid income taxes? Could we get along? Just say, "No, we are not going to pay any more income tax. We will just reduce the salaries."

Mr. REYNOLDS. There is quite a difference in this respect.

Mr. PASSMAN. Let's see what they actually said.

Mr. REYNOLDS. Americans do pay taxes.

Mr. YATES. I don't understand the answer to that question. I thought a few seconds ago you told the chairman that they received a net salary in lieu of taxes?

Mr. PASSMAN. I am not going to argue with you. Here is what was said last year on this subject. This is on page 265 of part I of the hearings for fiscal year 1973:

> Mr. PASSMAN. Are you reimbursed for the tax that you pay?
> Mr. WIECZOROWSKI. Yes, sir.

I don't know how you could make it any plainer. You square your case with him. I get tired coming in every year and asking the same question but getting a different answer.

Mr. ROYBAL. Mr. Chairman, let's get his answer on the record.

Mr. PASSMAN. He just gave me nine different answers and none of them added up to what the man said last year.

Mr. ROYBAL. A moment ago he said Americans do pay taxes. Now the testimony of last year clearly indicates that while they do pay taxes they get reimbursed for their taxes, which in effect means that they don't pay taxes.

Give us your answer. Do you pay taxes or don't you pay taxes?

Mr. REYNOLDS. If I may, Mr. Congressman, the salaries for employees of the World Bank, regardless of their nationality——

Mr. ROYBAL. May I interrupt.

Do you pay an income tax?

Mr. REYNOLDS. Do I?

Mr. ROYBAL. Yes.

Mr. REYNOLDS. I most definitely do, yes.

Mr. ROYBAL. You are an American?

Mr. REYNOLDS. Yes.

Mr. ROYBAL. And you pay an annual income tax?

Mr. REYNOLDS. I do.

Mr. ROYBAL. Do you get reimbursed for that?

Mr. REYNOLDS. I personally don't because I am an employee of the U.S. Government.

Mr. ROYBAL. But does someone who is an American who works with the Bank, get reimbursed for the income tax that he pays the Government?

Mr. REYNOLDS. Let's just take an American. Yes, in effect.

Mr. HENNESSEY. In effect he does.

Mr. PASSMAN. In effect is all we are interested in. You have answered the question and we couldn't ask any more.

Thank you.

Mr. YATES. What possible justification is there for this kind of a practice?

Mr. PASSMAN. Because other nations follow this practice and we feel we want to be on the same level.

Isn't that correct?

Mr. HENNESSY. That is correct. Two points.

Mr. PASSMAN. Put it on the line, gentlemen. Don't confuse us.

Mr. HENNESSY. The original charter, which is the document to which the United States subscribes and so it is like a treaty, says these institutions will be tax-free, and the foreigners operating under it will be tax-free. If you tax the U.S. citizens working there it would put them at a competitive disadvantage so that everyone is placed on the same basis. It doesn't matter whether the institution is in Paris, in Washington, in Bangkok, or in Manila; the net result is that they get taxes reimbursed. In other words, whether it is in the U.N. in New York, if you are working for an international institution, in effect, you don't pay taxes to the U.S. Government. You do but they are reimbursed. You don't pay it to the French or some other government.

Mr. PASSMAN. Gentlemen, there is an important vote on the floor so let's take a brief recess and come right back.

Mr. ROYBAL. There seems to be a difference of opinion. I think we ought to ask every member of the Bank who is here whether or not he pays taxes and whether or not he gets reimbursed. Some believe they do and some believe they don't.

Mr. PASSMAN. If you work for an international organization, you get reimbursed for the taxes that are paid, isn't that right?

Mr. HENNESSY. In effect, yes, is what I am saying. The other people make the argument that, no, they don't, because they are quoted a net salary.

Mr. PASSMAN. Are you going to back up what your predecessor said or are you going to refute it? You had better read the hearings before you answer. Will you read it?

Mr. REYNOLDS. I understand exactly what he had in mind and I back off.

Mr. PASMAN. You don't in effect pay income tax?

Mr. REYNOLDS. No; that is not what he asked.

Mr. PASSMAN. I asked if he was reimbursed for the taxes he paid. What is the difference if you pay $2,000 a year in income tax and the organization reimburses you out of the till for the entire $2,000 then of course you are not paying income tax.

[Short recess taken.]

HIGH FOOD COSTS

Mr. PASSMAN. The committee will come to order. It is not my purpose to challenge or quarrel with any member of this subcommittee. They can stand on their heads if that is what they want to do, and I will applaud them.

Mr. YATES. At our age you should.

Mr. PASSMAN. I want to say this in defense of the farmer. Subsidy notwithstanding, he is the lowest-paid individual in our American free enterprise system. He gets the lowest return of any segment of the American system. The average farmer must have about $93,000 in machinery to be able to farm, and if you will check the record you will agree that he is the most underpaid individual in America.

When this farmer takes out of cultivation a crop, like cotton, to get a subsidy, remember that he gives something for something. Do you understand the program? He takes a crop out of cultivation, it is nonproductive, and he is not permitted, in many instances, to plant

anything on that land, so he loses more than he receives. At one time the subsidy went to the mills, with no criticism, but when they switched it to where it was charged to the farmer, then the criticism started.

Do you know, the average U.S. housewife spends 16 percent of her disposable income for food. The closest nation to that is France, when 28 percent of disposable income is spent for food. The highest nation is Indonesia, with 62 percent. If you will compare today's cost of food to 5 years ago, you will find that the housewife is paying less when you compare it as a percentage of disposable income. A great many of the farmers would much prefer to plant crops and to put his land in cultivation, but then you would throw supply and demand out of kilter, and of course you would be in serious trouble.

When I came here 27 years ago the farmer represented 23 percent of the population of America, while today he is down to 5 percent. There has never been a case in American history where if you let the farming segment go into recession that the remainder of America didn't fall in on top of him. He is the greatest consumer we have. The farmer consumes more steel than the entire automobile industry. It is too bad that a lot of people don't check into the actual problems of farming.

Mr. YATES. Do you want this on the record?

Mr. PASSMAN. I hope it is on the record.

Remember, my constituency is no different than yours. I could take the side of the consumer just as easily but I know too much about the former's problems.

Mr. YATES. May I suggest the consumers who live in my district don't like to have four raises in the price of milk in 5 months.

Mr. PASSMAN. I don't like the raise in the price of anything. But are you saying, "I don't care what you pay, but I want mine at a bargain"?

Mr. YATES. No; I am not saying that at all. I just think it is exorbitant.

Mr. PASSMAN. Let me point out for the record that I have one county where 98 percent of the farms are inundated. The water is from 6 inches to 20 feet deep. The water will not recede in time for them to plant a crop. We have another county that is 56 percent inundated, so these two counties are in bad shape. There is not a dime available to help these farmers from any source other than SBA loans for their homes and their contents, provided that the damage is as a direct result of the flood. So how in the world are they going to be able to eat for a full year? I don't know.

The only money that we have available under the Farmers Home Administration is a 5-percent production loan, but beyond that nothing?

FUNDS AVAILABLE FOR FOREIGN AID PROJECTS

Why have these floods taken such a toll? Because we have not been able to get sufficient funds to finish levees that were started many, many, many years ago in that area. They just don't have the money, yet the benefit-cost ratio on these projects is very high. We have to come in humbly, on bended knees to receive these funds and just beg for maybe 8 or 9 percent of the total cost of the project, and many times we are turned down flat but we come back begging again an-

other year. We have to look at that miserable record on domestic projects and know you people have never canceled or curtailed one project for lack of money for foreign aid projects.

AID has never had one dollar put into the so-called budgetary reserve.

When I look at these things, it causes me great concern.

Here is one foreign aid project that would cause any person grave concern. The International Development Association made an announcement in March that a $42 million credit was made to the Sudan for the Rahad irrigation project. In addition to the IDA credit, I note that the Agency for International Development was also going to provide an $11 million loan for the same project. Under the project description for this loan, it says they were going to develop irrigated agriculture on about 300,000 acres of land, construct an electrically powered pumping station, build a 52-mile supply canal, and construct an irrigation and drainage system covering the project area, just to mention a few.

This project sounds about like any other public works project here in the United States that presently has had the funds completely cut off. I would assume that this IDA credit of $42 million, would be over a 50-year period.

Mr. HENNESSEY. The loan terms; yes, sir.

Mr. PASSMAN. A 10-year grace period?

Mr. HENNESSEY. That is correct.

Mr. PASSMAN. How about the AID part?

Mr. HENNESSEY. Normal AID terms run out to 40 years, I believe.

Mr. PASSMAN. It is the same project doing the same work as projects in America, but they get this money for 50 years with no interest on $42 million; and on the $11 million, they get it at whatever terms they negotiate with AID?

Mr. HENNESSEY. That is a joint project, yes.

GENERAL ACCOUNTING OFFICE RECOMMENDATIONS

Mr. PASSMAN. That is a nice can of worms. In a General Accounting Office report dated February 24, 1973, many criticisms were directed to the World Bank and the International Development Association, of which a few are as follows: In GAO's opinion, the Treasury does not yet have a fully functioning system for managing U.S. participation in the Bank and the Association, and is not in a position to assure the Congress that funds contributed by the United States are being used effectively and efficiently by the Bank and Association to accomplish their objectives.

Do you have any comment on that?

Mr. HENNESSY. I believe we commented on that in the context previously.

Mr. PASSMAN. I may ask you the same question again tomorrow. It won't hurt to do it again.

Mr. HENNESSY. We agree with the specific recommendations which the GAO made to codify the system which we were using for loan analysis, and we are implementing all of the specific recommendations which they have made. In terms of whether we had a fully effective system, I think it is a question of beauty; it is in the eye of the beholder. Much of it is not standardized or written down. How do you

make a loan? We now have operational black books, if you will, codifications of a loan appraisal sysem or policy which we have submitted to the Congress for the record and to the GAO.

Mr. PASSMAN. But projects in these black books may not be funded this year. You don't know whether they will ever be funded. You are funding projects this year that possibly the funds, as you said this morning, were 3 or 4 years old. You couldn't tell this committee specifically what projects would be funded out of this appropriation this year.

Mr. HENNESSY. Not with 100-percent certainty. With a high degree of certainty, yes.

Mr. PASSMAN. What projects? Name 25 of them.

Mr. HENNESSY. We will be glad to submit that for the record.

Mr. PASSMAN. Submitting this stuff for the record is a lot of hot air. Tell me specifically, if you will, what projects, as far as possible, that you are actually going to allocate this money for in fiscal year 1974.

Mr. REYNOLDS. We can do that. There is quite a long list.

Mr. PASSMAN. You said this morning you couldn't do it, and I just wanted to see if you would give the same answer.

Mr. REYNOLDS. With 100-percent accuracy you can't.

Mr. PASSMAN. You didn't say that this morning. The GAO report went on to say the review by the National Advisory Council, which was the principal means for determining the U.S. position concerning proposed loans, appeared to be uneven and without formal guidelines or criteria for assessing the soundness of proposed projects.

Do you have any comment on that?

Mr. HENNESSY. This again goes to the question of how standardized do you have rules and regulations which were written down and which are applied by all the five agencies. We now have that.

Mr. PASSMAN. It goes on to say the information available during the informal review stage, the point at which questions on loans should be resolved, appeared to be insufficient for assessing a loan's soundness.

Any comment on that one?

Mr. REYNOLDS. Certainly when the loan is submitted for approval to the Board and within the U.S. Government to the NAC, we have an abundance of information.

Mr. PASSMAN. You have to give some kind of answer, but these charges have been made by GAO. It is to be regretted we have a program of this type. If I may ask you this question, Mr. Hennessy, what part, if any, do you have in actually administering this program?

Mr. HENNESSY. Well, I have overall responsibility but I guess that doesn't answer what you are asking. Do I look at each and every loan application and agree with it myself? No; that is more my deputy.

Mr. PASSMAN. Who actually then——

Mr. HENNESSY. Looks at each and every loan.

Mr. PASSMAN. All right, your deputy. You are his deputy?

Mr. HENNESSY. No, he is in the Bank.

Mr. PASSMAN. All right. We have that pinned down. So actually people who administer this program could be in Moscow this afternoon. I don't know and you don't know.

Mr. HENNESSY. Maybe I could explain the whole process.

Mr. PASSMAN. No, I know exactly what it is. You just answer ques-

tions and you do your job. The man who actually administers this program is not privileged to come before this committee because it is an international organization; is that correct?

Mr. REYNOLDS. The program of the institution is administered by the staff under the direction of the President of the Bank; yes, sir.

Mr. PASSMAN. But the man who administers this program is not permitted to come before this committee and justify these projects like Dr. John Hannah does to justify AID projects, is he?

Mr. HENNESSY. The staff of the bank don't come here, that is correct.

Mr. PASSMAN. I am not talking about the staff of the bank. I am talking about as we would say in Louisiana, the top dog, the man who administers this program. Where is he domiciled?

Mr. REYNOLDS. Washington.

Mr. PASSMAN. And he is not permitted to come before this committee because he is in an international organization.

Mr. HENNESSY. He does not come before this committee.

Mr. PASSMAN. But he is not permitted to.

Mr. HENNESSY. That is right.

Mr. PASSMAN. Why don't you answer me. You are such a nice fellow. I am going to get the answer, anyway, even at the expense of irritating you people. The people who administer this program could be in Moscow sipping cognac or some other drink this afternoon. He certainly is not here justifying this request. He has to depend on his subordinates or some man in the Treasury Department.

The GAO report goes on to say, although questions raised by the National Advisory Council in its review of proposed bank and association projects appeared not to have been fully resolved, the Council recommended approval of the loans.

This is saying that the projects can't be justified, yet they seem to want to approve it. Would you please tell the committee what additional amounts will be requested by IDA to maintain the value of the U.S. contribution in this particular institution?

MAINTENANCE OF VALUE

Mr. REYNOLDS. If I may, Mr. Chairman, I think $55 million will still be due for maintenance of value as a result of the first devaluation.

Mr. PASSMAN. Putting it this way then, you are not actually resting your case on $320 million for IDA. Your total request before you get this thing really going down the track is going to be $375 million, isn't it?

Mr. HENNESSY. That is, as you know, a separate procedure.

Mr. PASSMAN. I know, but you have to sweeten it up to that amount, do you not?

Mr. HENNESSY. When every country puts in, they put in at a certain weight and fineness of dollar. As it changes they have to maintain the value. In this case it falls on us. In the past it has fallen on other countries.

Mr. PASSMAN. Your knowledge is so great on this that you confuse some people.

In reality, before these funds actually are disbursed this $320 million so far as the U.S. contribution is concerned becomes $375 million, is that right?

Mr. HENNESSY. That is correct.

Mr. PASSMAN. Gentlemen, I want to thank you for that answer. I tell you the truth if I had the power I would strike a medal for you. That was really a direct answer.

By the time all of these international organizations receive a maintenance of value increase, if I may use this terminology, the kitty will be sweetened, I believe, by about $2 billion. Is that the right figure that I have used, about $2 billion?

Mr. HENNESSY. About $2 billion.

Mr. PASSMAN. Thank you.

Thank you very much, sir.

Off the record.

[Discussion off the record.]

Mr. PASSMAN. Mr. Roybal, would you take over for me for a while?

Mr. ROYBAL. Are there any further questions?

Mr. Shriver.

BENEFITS FOR IBRD/IDA EMPLOYEES

Mr. SHRIVER. I just have a few questions.

Did we get into the record the other fringe benefits of working for IDA or the World Bank?

Mr. HENNESSY. We will get that into the record because I gave one off the record and one off the top of my head but we will be glad to supply that for the record.

[The information follows:]

STAFF BENEFITS

Staff benefits, including special provisions for those whose service with the Bank requires living outside their home countries, are summarized below.

ORIENTATION IN WASHINGTON

A lump sum installation allowance is paid on arrival in Washington. Assistance is provided in finding permanent living accommodation, appropriate schooling for children, language instruction if needed, driving licenses, and related matters.

ALLOWANCE FOR DEPENDENTS

A staff member is entitled to a dependency allowance of $500 a year for his or her spouse if the spouse's annual income does not exceed $8,000, and of $300 per year for each dependent child. Amounts paid are net of taxes.

EDUCATION ALLOWANCES

Staff members stationed outside their home countries may be granted education benefits for dependent children who are attending primary or secondary schools. The Bank group reimburses 75 percent of tuition and other eligible costs up to a maximum grant of $1,000 per annum per child. If a child attends school outside the duty station country, one round-trip transportation may be provided yearly. Similar benefits are available in certain instances with respect to education at a university or other recognized institution of higher education.

TRAVEL

Resettlement.—The cost of transportation for the staff member, his family, and household effects is paid by the Bank when the staff member moves to Washington, and normally when he returns to his home country on completion of service with the Bank.

Mission travel.—The actual cost of subsistence is paid for by the Bank when a staff member travels on official business. On long journeys, stopovers

Bank's expense are authorized so that the staff member may arrive fit and fresh to carry out his assignment.

Spouse travel.—Married staff members accrue points for days of official travel outside the country of their duty station. After the required number of points have been accumulated, the Bank will pay the transportation cost for the spouse to accompany the staff member on an official trip.

LEAVE

Sick leave accumulates at the rate of 15 working days per year.

Annual leave accrues at the rate of 25 working days per year.

Home leave, during which the staff member uses his annual leave to visit his home country, with the Bank paying travel expenses for the staff member and dependent spouse and children, may be taken every 2 years with economy air passage or every 3 years with first-class air passage.

INSURANCE

Life insurance is available for staff members under a low-premium group policy. The Bank shares in the cost. Coverage is approximately one and a half times annual net salary. A double indemnity provision applies in event of accidental death.

Comprehensive medical insurance available for the staff member, spouse and dependent children. The cost is shared by the Bank. The medical insurance plan pays the full cost of semi-private accommodations in a hospital for up to 180 days per illness. After a $40 calendar year deductable, the plan reimburses 80 percent of other allowable medical expenses up to a lifetime maximum of $50,000. The plan also reimburses 50 percent of allowable dental expenses after a separate $40 deductible, up to a maximum of $500 per year.

Travel accident insurance in the amount of three times net annual salary is provided by the Bank for staff members traveling on official Bank business. In addition, coverage of $100,000 is provided for official air travel.

Workmen's compensation insurance covers injury or death arising out of performance of official duties. The premium is paid by the Bank. In general, medical expenses resulting from work-connected illnesses and injuries are fully reimbursed.

Mr. SHRIVER. I noticed that last year during the hearings you put in as one of those advantages advances against salary, with a considerable explanation of that. Also, loans may be made to assist staff members for certain purposes.

BALANCE OF PAYMENTS IMPACT

You say the overall impact of World Bank operations on the U.S. balance of payments is heavily favorable. Would you tell us more about that?

Mr. HENNESSY. Yes. Mr. Reynolds can give the figures. That derives from the fact that the World Bank gets most of its money, not from the IDA window, the IDA contribution, but from the fact that they go out and borrow on the world capital markets and what they have been doing in recent years is borrowing outside the United States.

In fact, I think they have practically not borrowed here in the last 2 years, to the best of my recollection, maybe once, and they take the money they borrow and they then deposit that in the United States, so we have an inflow of funds which stay here until they turn around and disburse them, which may take 10 years.

From that point of view, accumulative from the beginning, it has had a positive balance of payments effect and even during the last year it has had a positive balance of payments effect.

Mr. REYNOLDS. The last borrowing in the United States by the World Bank was in January of last year and since then they borrowed

over $2 million in overseas markets, principally Germany and Japan.

In the meantime there has been heavy procurement, administrative expenses in the United States and repayment of past borrowings in the United States and interest payments on past borrowing.

SOURCES OF RAW MATERIALS AND OTHER PRODUCTS

Mr. SHRIVER. You referred to our growing dependence on overseas sources for raw materials and other essential products. Would you tell us more about how IDA helps in this regard?

Mr. REYNOLDS. I think by contributing to the kind of world trading system by which we can rely on foreign sources for raw materials, supplies, as well as making direct contributions to expanded production of raw materials in developing countries.

Mr. HENNESSY. I think some 20 percent now of our raw materials come from the developing countries and I have seen projections which go as high as 30, 35 percent, in the next 7, 8 years—this excludes oil. What the banks do is to provide capital to build the roads and the power and the rest that allow you to go in and exploit the natural resources that are there. And in the last year, which is our worst trade balance in history, we had a favorable balance with the developing countries.

In other words, as the banks help the developing economies grow they demand more and more U.S. products so that has been a favorable impact also as a result of their operations. But we are having a growing dependence on all sorts of minerals, copper, bauxite, et cetera, and the bank's activities in helping to promote sound local government and sound local economies help us in the sense that it provides a secure source of supply to us and a cheaper source of supply than we would otherwise have.

IBRD REORGANIZATION

Mr. SHRIVER. You say the reorganization undertaken by the Bank last year served to unify functional and area responsibilities and established a more coordinated approach to lending operations. Would you elaborate on that?

Mr. HENNESSY. Yes. I will give the general picture and Mr. Reynolds can give some of the particulars, but because of concerns on our part and in part as a reflection of the concerns of some of the communities in Congress of how efficient the banks were internally and how well they are being run, we asked that they have some outside consultants come in and take a look at the bank after 25 years.

They had internal studies and small piecemeal studies and they hired a major U.S. consulting firm which came in and did a study over the course of a year and which came up with recommendations. They had a projects department and then a regional department and there was some competition and fighting—I won't say a lot—but let us say there was lack of coordination, that is probably a positive way of putting it. They thought operations would be made more efficient by this more unified regional approach and the result of the study was such a reorganization.

It was carried out, I believe, in August and it was approved in August and it has been carried out since then and I think it will allow

them to carry out with greater efficiency more loans per professional than they have in the past.

Also there has been some problem with speed in disbursing and this should help all of these problems which have been of concern to this committee as well as to the Treasury.

Hal, you may have some particulars.

Mr. REYNOLDS. I don't think there is much to add, Mr. Shriver. As Mr. Hennessy said, previously there were really two quite separate chains of command in the bank. You had the people who worked on projects and the people who worked on country economic problems of one kind or another, and oftentimes differences of view between the two could only be resolved at the most senior level of management.

Now there is integration within regional departments of the bank. You have both country people and project people, and we hope it will expedite decisions and also advance the concept of viewing each individual project within a total view of the development plan of the country.

PERSONNEL

Mr. SHRIVER. You have around 3,000 people?

Mr. REYNOLDS. The total staff at the moment, professional and nonprofessional, I believe is about 3,400.

Mr. SHRIVER. Has that increased in the last year?

Mr. REYNOLDS. In the last year it has increased, yes, something like 8, 9 percent, I believe.

Mr. SHRIVER. What accounts for the increase?

Mr. REYNOLDS. Expanding level of operations. Not only has the level of new lending gone up very substantially over the last 4 or 5 years but as the level of new lending goes up each year, then you have more and more projects that are ongoing and under supervision at a given time.

Mr. SHRIVER. What percent of them are here in Washington?

Mr. REYNOLDS. Oh, most of them. There are a few field offices but they are not very big and they are not very many, so well over 90, 95 percent would be here in Washington.

EVALUATION OF IDA PROJECTS

Mr. SHRIVER. Would you tell us or give us some examples of the project inspections and evaluations which are conducted on ongoing IDA financed projects?

Mr. REYNOLDS. Yes. Project supervision has been declared by Mr. McNamara to be the No. 1 priority of the operational staff of the Bank. The projects are supervised very closely from the moment they are approved right through to the time they go into operation.

There are periodic visits by supervision teams from Washington. There is a requirement for regular receipt of progress reports. It is a very close process of watching the project, helping to resolve problems as they develop right from the time of loan approval through completion of the project.

Now, in the last couple of years the bank has also put into operation a new system for evaluating the results of World Bank projects, asking in effect how successful have they been, have the original objectives been met, has the contribution to development of the coun-

try been as great as was expected, in effect trying to assess past operations with a view to improving future operations. There is a unit in the Bank that does that. It has, I think, about 10 professionals at the moment. It reports directly to the President who in turn has committed himself to passing on these reports in unchanged form to the Board of Directors for their review.

Mr. SHRIVER. Mention has been made here during the hearing of a GAO report on our U.S. participation in the World Bank and IDA. I don't know whether anyone requested a summary of that to be put in the record or not, but I think it would be well. Include any policy changes made in response to the report.

Mr. HENNESSY. We will do that. There has been some question but we will put the overall answer in.

Mr. MILLER. Final review and what you have done to solve the problem?

Mr. SHRIVER. OK, but you don't need to duplicate anything.

[The information follows:]

RECOMMENDATION 1

MORE SUBSTANTIVE INFORMATION ON PROPOSED PROJECTS SHOULD BE RECEIVED EARLIER IN THE PROJECT PREPARATION PROCESS IN ORDER TO RESOLVE QUESTIONS AT AN EARLY STAGE

As a result of Treasury Department efforts already under way at the time of the GAO review, there has been a significant increase in the timeliness and substantive nature of the information provided to the NAC member and participating agencies for use in the U.S. project appraisal process. Currently the NAC member and participating agencies receive the World Bank/IDA monthly operational summary. This document is a compilation of basic information on all proposed projects. It contains information on the amount of the loan, whether it is expected to be from IBRD or IDA resources, the purpose of the loan, the stage of the Bank's processing of the loan, and any actions taken on procurement. Since the document contains considerable "substantive" information on a proposal and since a proposal is usually entered in the document at least 1 year before it is submitted to the Board of Directors for their approval, it is a basic source of information used in the U.S. appraisal process.

A new notification process has also been instituted. When a project makes its way through the Bank's evaluation process and is at a stage where negotiations between the Bank or the Association are warranted, the U.S. Executive Director's Office at the World Bank now formally advises the NAC member and participating agencies that such negotiations are about to begin. When the negotiations are substantially completed the Office of the U.S. Executive Director then transmits to the NAC a brief report prepared by the Bank on the status of the negotiations.

On the specific issue of procurement, a subject of increasing concern to the United States, a new early warning system was established over a year and a half ago whereby new projects listed in the monthly operational summary are referred to our overseas posts. U.S. officials at these posts are instructed to follow up with the local borrowing agencies in order to obtain and furnish information to U.S. suppliers on potential export opportunities. This new information system has widened the access of U.S. business to international lending institution-generated procurement opportunities and, thus, improved their ability to compete aggressively for those export contracts. (See attached sample summary.)

RECOMMENDATION 2

INSTRUCTIONS TO GUIDE U.S. OFFICIALS IN APPRAISING LOAN PROPOSALS SHOULD BE DEVELOPED

This recommendation was also contained in the Controller-General's report on U.S. participation in the Inter-American Development Bank (report B–161470 dated August 22, 1972).

A formal codification of the procedures and policy criteria employed by the United States in the appraisal of the financial commitments, largely long-term development loans and credits, of the international lending institutions was recently completed by a special National Advisory Council (NAC) working group and approved by the members of the NAC.

The codification, which contains detailed information relating to documentation, personnel, procedures, and policy criteria employed by the various U.S. Government agencies, is available to officials in each of the NAC member and participating agencies who are involved in the loan appraisal process. The codification will be revised periodically to accommodate changes made in the appraisal process. A copy of the codification is attached.

RECOMMENDATION 3

INSTRUCTIONS REQUIRING U.S. MISSIONS TO OBTAIN AND FURNISH INFORMATION ON BANK AND ASSOCIATION PROJECTS BOTH PROPOSED AND BEING IMPLEMENTED SHOULD BE DEVELOPED

This recommendation was also contained in the Controller General's report on U.S. participation in the Inter-American Development Bank (Report 3–161470 dated Aug. 22, 1972).

In response to the recommendation, an explicit reporting requirement has been added to recently issued economic reporting guidelines for U.S. missions overseas, and will be incorporated in several additional such guidelines expected to be disseminated shortly. This step will require periodic reporting from AID missions, or the Embassy's economic section if no AID mission exists, on both projects to be financed by international lending institutions and on the progress of implementation of projects already financed by these institutions.

This new reporting requirement will formalize one part of an established and very useful information system. AID, an NAC participating member in the loan appraisal process, has incorporated reports from AID missions on loans financed by the international lending institutions in its analysis of proposed projects and in its presentations at NAC meetings for many years. Another important component of the AID missions input in the U.S. appraisal process is its direct contacts with the appraisal missions sent by the international lending institutions to the recipient countries. These contacts have often resulted in marked improvement in the coordination of such projects with those supported by AID.

We do not interpret this recommendation calling for a formal reporting requirement nor the actions being taken to implement it as a desire for AID mission or Embassy economic section personnel to undertake indepth audits of existing or proposed projects or to otherwise duplicate the work of the professional staffs of the World Bank and the International Development Association. Nor do we understand it to propose any increase in U.S. staffs overseas. The objectives of these reports and direct contacts are to insure the most effective use of World Bank and IDA resources in the context of the other economic development programs in the recipient country, and to provide on-going knowledge to the interested U.S. agencies in Washington of the field aspects of lending by the international lending institutions.

RECOMMENDATIONS 4

THE ESTABLISHMENT OF A REVIEW BODY OF SIZE AND COMPETENCE APPROPRIATE TO MEET THE NEED EFFECTIVELY INDEPENDENTLY EVALUATING BANK AND ASSOCIATION ACTIVITIES SHOULD BE SOUGHT

The Bank and the Association established in September 1970 a joint evaluation group responsible to management which may satisfy the clear need outlined in this recommendation. We say may since the short time in which the group has operated makes an evaluation of the group's utility premature. So far, the two major studies prepared by the group have been excellent. We intend, however, to press for the adoption of an independent audit mechanism consistent with the GAO recommendation. Adoption will require approval of other member countries.

JUSTIFICATION FOR IDA

Mr. SHRIVER. As members of the Appropriations Committee we have the responsibility to our taxpaying constituents to justify the expendi-

ture of Federal funds. What would you tell these constituents of ours regarding our 40 percent contribution to IDA and IDA's no interest, 50 year, 10-year grace period loans of, say, $4.5 million to Nepal for tourist hotels?

Mr. HENNESSY. I think there are different parts to the question.

Mr. SHRIVER. No; I just asked one question. What would you tell them?

Mr. HENNESSY. Tell them in terms of that loan? I think the per capita income in Nepal is slightly under $100. They don't have any natural resources to speak of that have been discovered thus far. One way of increasing the same, one way of helping to promote exchange and other services and employing people is to promote tourism, and I think the bank does this in selective cases, particularly where there aren't a lot of minerals or other resources around. This may be the only way they can make the economy self-sustaining in certain cases and I think Nepal is one of them.

Mr. SHRIVER. Well, we are being asked to cut back Federal support for projects such as water and sewer improvements, this kind of thing. It gets a little sticky when we are asked questions like that.

Mr. HENNESSY. I understand and I think the problem from the point of view of, say, lending to Nepal is they probably couldn't even afford to pay back a loan for a sewer unless they have some way of generating some exchange, and right now, in that they don't have much manufactured exports or have any copper or tin or something in the ground, they can do it by earning exchange from tourism, but obviously they have to develop other sources of exchange over time and other bases and other industries. But at the present time even a water project wouldn't be viable perhaps.

EFFECTS OF CURRENCY REALINEMENT

Mr. SHRIVER. The 1972 annual report discusses the difficulties involved in determining the exact effects of recent currency realinement. We may have some neeed of that information in connection with this bill if we ever get it to the floor.

I think we ought to have a summary put into the record.

Mr. HENNESSY. I think we can put something in. In my previous discussion with the chairman on this particular point and the problems of the United States in particular, I think that we saw in the April trade figures, that we had a $200 million surplus, which was the first surplus on a monthly basis in some 8 months, and represented a $700 million turnaround from 2 months before. While monthly figures vary considerably, there are indications of solid improvement. The exchange rate change is making us more competitive and should make us more able to handle international commitments than in the past and I think we are seeing some of that.

The impact of devaluation on U.S. prices doesn't look now like it will be very great. The benefits far outweigh the cost, but I would be willling to put in the record a longer summary statement of the effects.

Mr. SHRIVER. Why don't you do that then.

[The information follows:]

IMPACT OF THE 1973 DEVALUATION (TREASURY DEPARTMENT MEMORANDUM)

1. The February 12 devaluation of the dollar and associated actions, coming in addition to the earlier Smithsonian realinement, provide a realistic base for restoration of a satisfactory equilibrium in the U.S. payments position. Combined with fair access for our exports to foreign markets and the continuation of sound domestic policies to spur productivity and hold prices in check in the United States, these exchange rate realinements offer the prospect of a viable, sustainable international payments equilibrium.

2. There appears to be rather widespread agreement among economic experts that these exchange rate changes should have a substantial favorable impact on the U.S. trade balance. There is, of course, a considerable range of estimates concerning the precise quantitative impact of these exchange rate adjustments and the length of time necessary for the full beneficial impact to make itself felt. This is not surprising given our limited experience with major exchange rate adjustments and the various approaches and methodologies applied.

3. In addition, a major change in the competitive position of the United States relative to other countries will have an impact on other items in the current account balance of payments. Some of the impact will be negative—for example, a given level of overseas military expenditures will cost more in terms of dollars after the realinement. Other items will be affected positively—for example, foreign currency earnings of U.S. overseas subsidiaries remitted to the United States will show a higher dollar value. Also, investment flows should be affected in a way which strengthens the balance of payments. With a U.S. economy which is much more competitive internationally, the incentives for U.S. individuals and firms to invest abroad rather than in the United States will be substantially reduced, and the profitability and attractiveness of U.S. investment to foreigners increased. Given the complexities of assessing these flows and our lack of experience with major realinements, it is difficult to estimate the total impact on investment flows. But the effect could be to reinforce in a significant way the improvement in the trade balance resulting from the realinement.

4. One recently published study concerning effects on the trade balance prepared for the Brookings Institution by Professor William Branson of Princeton University summarizes much of the analysis. Surveying the implications of models developed by the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), and Stephen Magee of the University of Chicago, Branson found that they provided a range of estimates of from $3 billion to $8 billion for the favorable effects of the Smithsonian realinement. The lower estimate was derived by Branson from a model developed several years ago by the OECD staff, which incorporated very low estimates of price elasticities for internationally traded goods. Nevertheless, this range appears to cover the general spread of econometric estimates, including those undertaken by the staff at the Treasury and at other Government agencies.

5. Branson's view was that the evidence supported most strongly the upper end of this range of the elasticity estimates, yielding a prediction of approximately $1 billion improvement in the U.S. trade balance for each percent reduction in our exchange rate. Reaction by other economists to Branson's figures of $7 billion to $8 billion for the effects of the Smithsonian realinement was mixed, with some "elasticity pessimists" feeling that they were too high and others feeling that they were quite reasonable.

6. Branson's formula would suggest an improvement resulting from the Smithsonian and February 12 realinements combined on the order of $15 billion. This corresponds to the upper end of an estimate recently reported by C. Fred Bergsten of the Brookings Institution that the combined impact of the two devaluations would be a $10 billion to $15 billion improvement in the U.S. trade balance.

7. There is some evidence that foreign producers and U.S. importers initially reacted to the Smithsonian realinement in 1972 by reducing profits and costs of production. There is also evidence of an intensification of marketing efforts, of shifts in sources of supply to countries whose dollar exchange rates did not change, and of shifts in product composition of imports. Thus in the first year after the Smithsonian realinement the exchange rate changes were by no means fully passed through in higher prices to the final purchaser. Over a longer period, however, foreign producers may be compelled to increase their prices to reflect the exchange rate changes more fully. Logic suggests, furthermore, that the recent exchange rate adjustments should be passed through more fully than the 1971 charge. Foreign producers will not have as much leeway to absorb

the impact—Volkswagen, for example, has already announced a 7½ percent increase in its U.S. prices. The new alinement will greatly increase the pressure on distributors and marketing organizations in the United States to shift from imports to domestically produced goods. There may be something of a "threshold effect"—in other words, the total impact of the two realinements, adding up to an approximately 15 percent appreciation of OECD currencies against the dollar, may have more than 15 times the effect of a 1 percent change.

8. It would be a mistake to conclude that because our trade balance deteriorated in 1972, devaluation will not work. In looking for evidence of realinement effects on the U.S. trade balance, it must be kept in mind that actual trade in any particular period is affected by many diverse factors. Strikes at the ports, for example, have seriously distorted trade data on several occasions. Relative cyclical conditions in the United States and abroad probably had a favorable effect on the U.S. trade balance in 1971, but changes in these conditions may have been responsible for a substantial portion of the deterioration in the balance between 1971 and 1972. Roughly one-third of our total imports are consumer goods, and demand for such goods tends to rise rapidly as consumer incomes rise. United States competitiveness—and the U.S. trade balance—have been deteriorating since at least the mid-60's, and long-term movements of this type are not easily or rapidly reversed. Fuel imports are also increasing substantially. The effects of realinement have to be measured against the balance which could have been expected in the absence of exchange rate change. In this connection, it is worthy of note that the trade balance ceased worsening after mid-year despite strong growth of the American economy.

9. Furthermore, there is a short-run perverse impact from devaluation because the shifts in flows of goods and services come only in response to changes in relative prices and thus lag by some considerable period of time the increase in the dollar price. Indeed, recent work confirms that timelags may run well beyond 2 years or so before the *full* effects are achieved.

10. Taking these factors into account, it is not surprising that the United States did not experience a dramatic turnaround in the trade account in the first year following the Smithsonian realinement. Actually, the fact that the deterioration in the trade position came to a halt during 1972 may indicate that the Smithsonian realinement was already having a greater beneficial impact than appeared on the surface.

11. Most of the studies made both within the U.S. Government and in academic circles suggest that U.S. imports of manufactured products have a price elasticity of demand of more than 2; estimates as high as 5 have been made.[1] These studies thus offer a basis for the expectation that the United States should improve its trade balance substantially, to the extent that the exchange rate changes are passed through in the final price. They also suggest that better price performance by the United States than by its major trading partners will be effective in strengthening the U.S. trade position.

12. In summary, both common sense and extensive econometric work undertaken by economic experts at the Treasury, other U.S. Government agencies, international institutions and academic and private research institutions clearly suggest that although a considerable period of time will be required, the recent exchange rate adjustments will bring about a major improvement in the U.S. trade position.

URBANIZATION PROJECTS

Mr. SHRIVER. What are these IDA-financed urbanization projects in Senegal and in Turkey?

Mr. REYNOLDS. Yes. This is a field in which the World Bank has recently entered really for the first time. It is sort of very tentatively feeling its way. I think the Senegal project was really the first urbanization project that was done. It was approved back several months ago.

It is a project which is aimed primarily at developing the site for a rather large scale do-it-yourself housing program.

[1] Stephen Magee, "A Theoretical and Empirical Examination of Supply and Demand Relationships in U.S. International Trade," a study for the Council of Economic Advisers (October 1970).

The World Bank itself is not getting involved in financing housing but it is financing the preparation of the site of the housing project and financing the basic infrastructure, water, sewerage, for the general area as well as financing I think some basic industrial facilities to be related to the housing area.

Mr. SHRIVER. What is the one in Turkey?

Mr. REYNOLDS. Turkey, I think, was more of a strictly water supply and sewerage project. I don't have the details of that. I could furnish something for the record. I think that was more of a strict public utility type of project in the water and sewerage area.

[The information follows:]

ISTANBUL URBAN PROJECT

In July 1972, the World Bank and IDA approved a project to assist the development of Istanbul, Turkey. A $2.3 million credit is intended to prepare an integrated development program for Istanbul, and thus to lay some of the basic groundwork for properly planned, comprehensive and coordinated metropolitan growth. In conjunction with this credit, a $37 million loan will expand and improve the water supply system of Istanbul, which has lagged behind rapidly increasing demand. It will involve expansion of the water treatment, transmission, pumping and distribution systems for the entire metropolitan area, together with technical assistance.

The Bank loan is for a 25-year term, including five years of grace, at 7½ percent interest per annum. The IDA credit is for 50 years, including a 10-year grace period and is interest free except for a three-quarters of 1 percent service charge.

JULY 5, 1972.

TECHNICAL DATA

Project: Istanbul urban development.
Country: Republic of Turkey.
Total cost: $3.3 million equivalent.
IDA financing: $2.3 million, 50 years, 10 years of grace, interest free except for three-quarters of 1 percent service charge to cover IDA's administrative expenses.
Other financing: Turkish Government.
Implementing organization: Ministry of Reconstruction and Resettlement, Ankara, Turkey.
Project description: Preparation, in a form suitable for the Government's approval and implementation, of an integrated program of action to meet the long-term urban needs of the Istanbul metropolitan area, an urban transport/land use model, and the high-priority projects designed to alleviate existing problems in such areas.
Procurement: Consultant advisory services; training, fellowships, and seminars; equipment and vehicles. Consultants' contracts to be agreed upon by the Turkish Government and IDA.
Consultants: To be selected.
Estimated completion date: Late 1975.

JULY 5, 1972.

TECHNICAL DATA

Project: Istanbul water supply.
Country: Republic of Turkey.
Total cost: $5.1 million.
Bank financing: $37 million, 25 years, 5 years of grace, 7¼-percent interest per annum.
Other financing: Turkish Government, internal cash generation, capital contributions by consumers.
Implementing organizations: Istanbul Water Administration (ISI), (Istiklal Caddesi, Beyoglu, Istanbul, Telephone: 45-05-30)—construction of distribution system; State Hydraulic Works (DSI), (Yucetepe Mahallesi, DSI Ankara, Telephone: 18-34-15)—all other project construction.
Project description: Expansion of Istanbul's water treatment, transmission, pumping and distribution systems; technical assistance.

Procurement: Pumping stations, treatment plants, reservoirs, transmission and distribution pipelines, Bosporus underwater pipeline, telemetering systems, water meters, operation and maintenance equipment, technical assistance. Bank-financed contracts to be awarded on basis of international competitive bidding with 15 percent preference for Turkish suppliers.
Consultants: Management, accounting, engineering consultants for ISI to be selected. Engineering consultants for DSI for treatment plants—Tahal (Israel); transmission pipelines—Bergeron (France); Bosporus pipeline crossing—to be selected.
Estimated completion date: 1976.

RURAL DEVELOPMENT PROJECTS

Mr. SHRIVER. What is the new aproach to rural development which is being considered now in regard to the Bank's activities in Africa?

Mr. REYNOLDS. Well, just generally much more of an effort to finance activities that reach out into the rural areas and help expand the productivity of the small peasant farmer through provision of credit, better provision of basic irrigation facilities, things of that nature.

Mr. SHRIVER. Same thing that they are doing in AID?

Mr. REYNOLDS. I think much the same approach, yes, except, it is not a volunteer program in the nature of the Peace Corps. It is a financing program. It is designed like other World Bank projects to finance equipment, to provide consultants, to provide necessary technical assistance, expertise.

Mr. HENNESSY. I think one of the things that has grown over time is a specialization in organization. For instance, in the educational field in Brazil you get the World Bank concentrating on one level, say, vocational, and AID may be looking at high school education. The same thing is true, I think, in the urban area and in the rural area.

The World Bank, as I recall, in the African program has been looking at the nutrition aspect and health aspect of these rural programs, trying to get higher protein consumption, et cetera, which will increase the productivity of the people involved, trying to deliver health services as well as get some projects out to the farmers which will employ them.

Mr. SHRIVER. That is all.

Thank you.

IDA THIRD REPLENISHMENT AGREEMENT

Mr. ROYBAL. I would like to make inquiries with regard to the $320 million. What you are asking now is for $320 million. Is that not correct?

Mr. HENNESSY. That is correct.

Mr. ROYBAL. And this is due to an agreement that was reached among the advanced member countries to replenish the resources of IDA on three different occasions.

Now, the United States participated in those agreements.

Mr. HENNESSY. Yes.

Mr. ROYBAL. And it was agreed then that $960 million would be made available by the United States. Is that not correct?

Mr. HENNESSY. That is correct.

Mr. ROYBAL. The first installment, however, was provided by the Congress under the terms of a continuing resolution?

Mr. HENNESSY. Yes.

Mr. ROYBAL. So in effect this committee has not really appropriated the moneys as an individual item. Is that correct or is that incorrect?

Mr. SHRIVER. We had it in the House bill, but the House and Senate never did get together last year.

Mr. ROYBAL. That is what I want to know. What was the reason that we had to go to a continuing resolution?

Mr. HENNESSY. There was never a conference held, I think because the military authorization bill never took place, and because that never took place, the AID appropriation conference never took place.

Mr. ROYBAL. So there was no conference of any kind, and then it was necessary to have to do it under a continuing resolution.

Mr. HENNESSY. Yes.

Mr. ROYBAL. This is then the second installment that we are talking about?

Mr. HENNESSY. Being asked to appropriate, that is correct.

Mr. ROYBAL. And the second installment then is now overdue, is it not?

Mr. HENNESSY. We are a year behind schedule, but when we paid in, we made it clear to everyone, because that was the decision of the Congress when we signed up at that time, that we could not make the original payment schedule, although other countries had subscribed to that, and because of our own particular situation we were going to do it but on a 1-year lag basis. They are aware of that.

Mr. ROYBAL. At the time that the agreement was reached, was there any consultation made or was the Congress in any way consulted with regard to an agreement for $960 million?

Mr. HENNESSY. When the original negotiations took place, the authorizing committees in both Houses were fully apprised of it. I think where we fell down, and that is only indirectly I believe, is with respect to the appropriating committees—this is back in 1969 when the international negotiations were going forward. But before the legal commitment, before the United States signed up for this, which took place only last September, full consultations before we signed on the dotted line were held with both committees in both Houses, and with committee members and subcommittee chairmen.

Mr. ROYBAL. Was there at least acquiescence on the part of the chairman of this committee to go along with the $920 million at the time?

Mr. HENNESSY. That was our interpretation and I believe the interpretation of the wording in the conference report where it said that it was not the intention of the managers to deny the 3 years' appropriations which would total $960 million.

Mr. ROYBAL. Then there is a commitment, is there not, on the part of this committee that the $960 million will be provided over a period of 3 years?

Mr. HENNESSY. That would be our interpretation, yes.

Mr. ROYBAL. Because the way the thing finally turned out, consultation with the Appropriations Committee, has committed the committee to meet that agreement.

Is that your interpretation?

Mr. HENNESSY. That is my interpretation, but there is always a fine line that in a particular year in a particular set of circumstances the Appropriations Committee has to make that final appropriation.

Mr. ROYBAL. That is correct. In the future, whenever IDA enters into any agreement, will it be the policy to consult the Congress on it and to get the Congress agreement before any agreement is reached with any of the other nations.

Mr. HENNESSY. It most certainly will be, and I would hope to come around and be able to talk to you all individually because we are now talking about the next round, and there is a question.

We have gone on the record with all the other countries that the United States needs a sharp reduction in its share from 40 percent to down somewhere between 33 and 30 percent, and that we must look at the absolute amount because you are appropriating dollars and therefore we have been carrying out consultations.

We have sent letters, but I would like to come around myself and other members of the administration to talk about where we are and to get guidance from the committee, but the brief answer is we will not enter, and promise this committee we will not enter, into any international commitments without first consulting and having the benefit of these consultations before we move forward.

Mr. SHRIVER. Would you yield?

Mr. ROYBAL. Yes.

COMMITMENTS BY CONGRESS

Mr. SHRIVER. We are elected in the House of Representatives every 2 years. That is about the length of time that we could individually be committed, I would think, because we can't bind future Congresses.

Mr. ROYBAL. The truth of the matter is that we do bind future Congresses at the time that such an agreement is entered into, whether we are serving on a 2-year basis or not. When this agreement was reached to provide $960 million, we in effect said that the Congress for the next 3 years is committed to provide $320 million. Isn't that correct?

Mr. HENNESSY. That is correct. It is a practical problem in dealing with these institutions. We have to program their funds on a 2- or 3-year basis and have to sit around a table to do so. It sometimes takes a year to 2 years to get 20 member governments to sit down and agree how much they are going to give.

Mr. YATES. Mr. Chairman, why does that necessarily follow? If he had conversations with members of committees and there was no action by the Congress, why is the whole Congress bound? Why cannot the Congress vote $200 million instead of $320 million?

Mr. ROYBAL. Do you want to answer that?

Mr. HENNESSY. Well, the Congress did act, but I think quite clearly you can vote less than the $320 million. At the same time that would put us in violation, according to our legal counsel, of this international agreement which we have entered into. The practical problem is that the banks don't live on a year-to-year basis. It is impractical to try to sit down with 20 other countries and every year come to agreement how much are we going to put in this year. They work on a 3-year basis and get a 3-year total, which in this case was $960 million, 40 percent is the U.S. share of the total amount, so that at some point in time every government wants to know how much every government is going to put in.

At that point you draw up an agreement and everyone signs up for that amount. The first step is to negotiate, with the benefit of con-

gressional consultations, reach a U.S. share and the U.S. amount, then an authorization bill goes through, and before we sign up in every case we have come around in the past and asked the appropriate committees, "Here is what the 3-year program is. We want the first year." After the first year has actually been appropriated and the Congress is aware of the next 2 years, then we go ahead and sign up with the international agreement, which means other countries can pay in, knowing that the United States is "committed." Everyone understands that in the last analysis the Congress is the one that appropriates for the United States, and even after the consultation process and having one appropriation, if you took the $320 million and lowered it to $200 or $280, or whatever it was, no one can say you are not operating in full——

Mr. YATES. Don't you have that situation here, that there has not been by action of the Congress an approval of your first year's appropriation, in view of the fact that you are getting your funds under a continuing resolution?

Mr. HENNESSY. Both houses approved the full amount, but there never was a final agreement, as I understand it. Was there?

Mr. SHRIVER. It passed both the House and the Senate, the continuing resolution did.

Mr. HENNESSY. Both had $320 million.

Mr. YATES. So it was not in dispute?

Mr. SHRIVER. No.

Mr. YATES. But the bill was never signed by the President, was it? Therefore can it be called a congressional commitment if you don't have a final bill but only have the funds being distributed under a continuing resolution?

Mr. SHRIVER. It was passed by both Houses of the Congress. It has congressional consent.

Mr. YATES. It doesn't become law until the President signs it.

Mr. SHRIVER. The continuing resolution?

Mr. YATES. I was talking about the original bill, the foreign aid bill.

Mr. SHRIVER. By approving the continuing resolution, you had approval of the House bill because we had $320 million in it, and the Senate bill had $320 million in it.

Reference was made in the continuing resolution to those two bills.

Mr. YATES. Perhaps you are right. I was thinking more of the foreign aid bill and not of the continuing resolution.

May I continue my questioning on this very point?

Mr. ROYAL. Go right ahead.

Mr. YATES. Congressman Rooney, chairman of the State Department Appropriations Committee, brought in a bill which in a sense shocked the members of the committee because he had reduced the amount of contribution, his subcommittee had, to the United Nations, and the U.N. constituent agencies abruptly. Suppose the committee were to help you in your negotiations by doing the same at this time?

Mr. HENNESSY. Let me say I think our position would be negative on that. We want to negotiate it, and we are negotiating for the new round, but this is a past commitment, as we see it. It does not entirely take into account our present economic situation, which is why we are strongly arguing, and will be successful in obtaining, a major reduction in our share in the next round. But at this point in time, after

other countries have signed up and are paying in, based on an agreement that the U.S. share will be 39 percent, to then reduce that I think would be unnecessarily disruptive. I think we have an agreement that starting from today this would apply. If our situation turned around very drastically we would still be 2 or 3 years from now with a reduced share, so you do have a lag before you catch up.

Mr. MILLER. Will the gentleman yield at that point?

Mr. YATES. Yes.

Mr. MILLER. I hardly see that this is a commitment from Congress, because a group has made an agreement. If it was a commitment as such, the Secretary, Mr. Reynolds, would hardly be here now attempting to justify the appropriation of $320 million. I can see the possibility of Congress marking it off completely. That isn't impossible, so would we be backing down on our commitment, would Congress be backing down if they did not appropriate the money?

Mr. YATES. If I may supplement what you have said, from previous answers, as I understand what the witnesses stated to the committee, they indicated their commitment to their colleagues, to the negotiators, was subject to congressional approval. Did you not?

Mr. HENNESSY. In the first instance, and subsequently we did consult with the Congress. We do have the committee's first appropriation through a continuing resolution. We have a conference report which talks about the total amount and we have personal consultations with the individual subcommittee and full committee chairmen. The Congress works with the committee system and great emphasis was placed on that as the basis for signing up.

I can't drive that to its logical conclusion saying the Congress, come hell or high water, cannot exercise its individual judgment and refuse to appropriate the $320 million. The Congress did not legally commit itself for those next two levels. It didn't write it in a document. What it said in the report was it was not their intention to deny it. We signed up with the full knowledge and intention at the time. It would seem to me that that was the time, if we thought it was too much, we should have raised the question. I think it would have grave impact and it might have foreign policy impacts, which Mr. Armstrong might care to comment on.

I wouldn't think this would be the time to do it, when people think the United States is walking away from what might otherwise be termed an appropriate level of commitment

Mr. ROYBAL. We have a vote on the floor. Suppose we take a 5-minute recess and come back.

[Short recess taken.]

Mr. ROYBAL. The meeting will come to order.

We will recognize Mr. Yates.

AMERICAN EMPLOYEES OF IRBD/IDA

Mr. YATES. I would like to ask about the American employees at the World Bank. The President is former Secretary of Defense McNamara; is that correct?

Mr. HENNESSY. That is correct.

Mr. YATES. What is the salary of the President of the Bank?

Mr. HENNESSY. $50,000 tax free, I believe. That is the tax-free equivalent.

Mr. YATES. Are there Americans in the lesser offices?

Mr. HENNESSY. Yes. I would say a majority of the key spots in the Bank are Americans. The Vice President, Mr. Burke Knapp, is an American.

Mr. YATES. What is his salary?

Mr. REYNOLDS. $40,000. I think it was perhaps just raised to $41,000.

Mr. YATES. He is Foreign Service?

Mr. REYNOLDS. He is an employee of the Bank.

Mr. YATES. Does he come from Foreign Service?

Mr. HENNESSY. No, he has been in the Bank I think since its inception in 1945. Before that he may have.

Mr. REYNOLDS. He was an employee of the U.S. Government.

Mr. ARMSTRONG. He was in the State Department as a civil servant in the latter part of World War II and then moved over to the World Bank.

Mr. YATES. Are there other American Vice Presidents?

Mr. REYNOLDS. Yes.

Mr. YATES. Will you name them?

Mr. REYNOLDS. The Senior Vice President, the chief operational officer under Mr. McNamara, is Mr. Knapp, and there are others. Mr. Chenery.

Mr. YATES. Is it Mr. Knapp who makes $40,000 a year?

Mr. REYNOLDS. Yes.

Mr. YATES. And then Mr. Chenery?

Mr. REYNOLDS. Yes.

Mr. YATES. What is his salary?

Mr. REYNOLDS. The Vice President's salaries range from $35,000 to $40,000.

Mr. YATES. Tax free?

Mr. REYNOLDS. Yes. They pay taxes, for which they are reimbursed, but they do pay taxes to the U.S. Treasury.

Mr. YATES. In effect it is tax free?

Mr. REYNOLDS. After payment of taxes they are left with a net of tax salary ranging from $35,000 to $40,000. You asked me to name them all. Mr. Chenery, Mr. Bell, Mr. Alter, Mr. Baum. I think there are five altogether.

Mr. YATES. Of the 3,400 employees of the Bank, how many are Americans?

Mr. REYNOLDS. The percentage of Americans is 27 percent of the professional staff, and there are about 1,600 professionals, so that would be——

Mr. YATES. Roughly 400?

Mr. REYNOLDS. I think about 450 professionals. There are also about 1,800 nonprofessionals employed by the Bank, and the percentage of Americans there is something less, I think, than 25 percent. This shows 420 professionals and 349 nonprofessionals.

Mr. YATES. What were those figures?

Mr. REYNOLDS. 420 professional, 349 nonprofessional American employees of the Bank.

Mr. YATES. Those would be roughly clerks and stenographers?

Mr. REYNOLDS. Right, messengers, chauffeurs, secretaries.

Mr. YATES. And the professional salaries, I suppose, vary, don't they, or are they all the same?

Mr. REYNOLDS. Professional salaries vary. They will start at about $9,000 or $10,000 and range on up to, as I say, $40,000 for the Senior Vice President and $50,000 for the President.

Mr. YATES. What sort of a position is a professional position other than an officer's position?

Mr. REYNOLDS. Anyone doing professional work, all of the economists, engineers, lawyers.

Mr. HENNESSY. Statisticians, computer technicians.

Mr. YATES. Do you have a breakdown of the salaries of the professionals that could be put in the record?

Mr. REYNOLDS. Yes; the number of employees, different salary ranges and that kind of thing.

Mr. YATES. That is right.

Mr. REYNOLDS. Yes, sure.

Mr. YATES. May that be put in the record?

Mr. HENNESSY. As long as we don't have to put in the people's names.

Mr. YATES. I would like the officers' names. They are published.

Mr. REYNOLDS. Yes.

Mr. HENNESSY. Yes; the top management.

Mr. REYNOLDS. I don't know that their salaries are published.

Mr. ROYBAL. It is so ordered.

[The information follows:]

SENIOR OFFICERS OF THE BANK

J. B. Knapp, Senior Vice President
S. Aldewereld, Vice President, Finance
A. Broches, Vice President and General Counsel
H. B. Chenery, Vice President, Development Policy
B. Chadenet, Vice President, Organization Planning and Personnel Management
W. C. Baum, Vice President, Project Staff
B. R. Bell, Regional Vice President, Eastern Africa
R. Chaufournier, Regional Vice President, Western Africa
I. P. M. Cargill, Regional Vice President, Asia
M. P. Benjenk, Regional Vice President, EMENA
G. Alter, Regional Vice President, Latin America and Caribbean
Sir Denis Rickett, Vice President
M. Shoaib, Vice President
W. Clark, Director, External Relations
P. N. Damry, Secretary

BANK GROUP SALARY RANGES—AS OF JUNE 1, 1973

Bank grade	Number of staff	Percent	Minimum	Maximum
Vice presidents	14	0.8	$35,000	$41,000
Department directors and deputy directors	52	3.0	25,239	37,560
Chief economists, assistant directors, and other senior staff	63	3.7	25,230	33,880
A	109	6.4	23,000	30,850
B	332	19.4	20,000	27,320
C	637	37.2	17,250	23,900
D	322	18.8	14,010	20,180
E	184	10.7	11,120	16,660
Total	1,173	100.0		

Mr. YATES. You are going to put the Vice Presidents.

Mr. REYNOLDS. We could certainly show the $35,000 to $40,000, and we can show how many fall into that range. Where each individual falls within that bracket I am not sure.

Mr. YATES. Is there a comparison to be made between your professional salaries and a comparable civil service salary, a professional salary in the civil service or in the Foreign Service?

Mr. HENNESSEY. We have carried out a number of comparisons ourselves to make sure there is an equivalency basis. We think the standard by which the people in the World Bank should be paid is the civil service, the U.S. Government, or the other major member governments. There is not entire agreement among all bank members on that, but we have carried out studies.

For instance, they say if we have to get a computer technician we may have to go out in the private market and hire one and may have to pay more than you pay in the U.S. Government. We don't accept that, but we do understand there may be exceptions. If a private sector salary is higher on an exceptional basis, they may make that type of a distinction. But in general the standard should be the U.S. Civil Service, the AID salaries, the State or Treasury Departments. We have made comparisons between the bank jobs and ours, and I think in general in most categories ours is competitive. We did recently have some differences, quite frankly, on the lower end of what we have to pay, for instance, in the Treasury to get a Ph. D. from a university, and what the bank does. Here I think the final resolution of that was that they are paying what I would consider is maybe $500 or $1,000 more than would be needed to really attract them, but the problem comes in matching. Is this guy's responsibility exactly the same as the other?

Mr. YATES. You have a lawyer of so many years in the State Department and he gets a certain salary.

Mr. HENNESSY. That is right.

Mr. YATES. You get a lawyer of so many years in the bank and he gets a certain salary.

Mr. HENNESSY. That is right.

Mr. YATES. I think the possibilities for comparison are apt.

Mr. HENNESSY. Yes.

Mr. YATES. I must say that when one speaks to my congressional colleagues about the fact that no taxes are paid, they are aghast. They have the impression Americans everywhere pay and should pay taxes. At any rate, I appreciate your supplying that for the record. I thank you, Mr. Chairman.

Mr. ROYBAL. Mr. Miller, would you like to continue now?

Mr. MILLER. I only have a couple of questions and I would like to continue now, if I may, Mr. Chairman.

Mr. ROYBAL. Will you proceed.

SUCCESS OF IDA PROJECTS

Mr. MILLER. Mr. Secretary, you spoke about aid being given by the World Bank to those nations that had less than $375 per capita income, as I recall.

Mr. HENNESSY. Yes.

Mr. MILLER. Have you seen any results that would indicate that the per capita income has gone up? I ask this question because of the various types of projects which you spoke of. You have agriculture programs. I would assume electrical generating stations are installed, utilities such as sewer and water. I cannot see that this type of thing

would necessarily bring the per capita income up. It may make a better life, but will it bring the per capita income up?

Mr. HENNESSY. By itself it wouldn't if it wasn't part of a global sort of development plan where they were putting some industries in and they needed some roads and a dam with electricity and the rest. The Bank does try to take an overall organized approach and see what impact that will have on the national income as part of a whole. There have been a number of countries where IDA originally started out with $200 per capita. Over time that has gone up because of inflation. There have been a number of counties such as Korea, which have been able through funds from the World Bank and IDA have been able to raise their per capita whereby they no longer qualify for that but only for hard market rate loans.

There is some empirical evidence they have been successful. Each individual loan—Mr. Reynolds deals more closely on a day-to-day basis than I do—but with each individual loan they do try and see what contribution overall national income on a particular project will have. That in some sense increases the ability of the Government to tax and in turn to increase the per capita income of the people.

Mr. MILLER. Is there a possibility of the program defeating itself on the basis of countries that would attempt to hold the per capita income down so they could qualify for loans?

Mr. HENNESSY. I don't think so. That would be self-defeating, in a sense. I think every government is now elected in the developing country on the promise of growth. They are going to get their per capita income up at a higher rate than the last government. On the other hand, if they were arguing they still qualified for IDA funds because they kept their per capita funds down, I think they would be kept out of office.

U.S. DEPENDENCE ON OVERSEAS SOURCES OF RAW MATERIALS AND ESSENTIAL PRODUCTS

Mr. MILLER. There is one other point I had. In your testimony on page 4 you mention economic development objectives fit closely with U.S. objectives in related areas of international trade and international finance:

> In this conection you should not ignore the growing dependence by the United States on overseas sources for its raw materials and other essential products.

Yes, I can see where we do rely on overseas sources for some raw materials. What are the other essential products? Are we speaking of manufactured products that we would import?

Mr. HENNESSY. I think primarily the raw materials that we are thinking of. Ultimately we could produce our own even at a higher cost manufactured or semimanufactured, but primarily that part of the statement dealt with raw materials and processed raw materials at a very low level of processing.

Mr. MILLER. You go on to state that——

"In many cases, IDA financing enables developing countries to export higher quality goods on a more reliable and economic basis."

Does that mean exporting higher quality goods to us in the United States?

Mr. HENNESSY. I think what was meant in that part of the statement—again this was Mr. Reynolds' statement; you may let him

answer, but the question I think is of getting the economy to a point where it is more effective and more efficient and so overall that they have better roads and better transportation facilities, lower cost credit, and then they can begin to compete domestically and regionally and ultimately internationally in world trade.

That is one of the objectives of the Bank.

Mr. MILLER. Do you care to respond, Mr. Reynolds?

Mr. REYNOLDS. I think in the strict sense of the word "essentially," it really applies only to raw materials but certainly in a broad sense it also applies to a number of food items and other commodities, which while perhaps not strictly essential, nonetheless play an important part in the scale of living of this country and we are dependent upon trade to obtain them. Not only do we obtain these materials in trade but, of course, the reverse side of the coin is that we expand markets in these countries for our own products.

BORROW FUNDS INSTEAD OF APPROPRIATING FUNDS

Mr. MILLER. The one point that I would like to reiterate if I may and make sure that I understood your answer correctly is when you were asked about whether you could operate under a guaranteed loan program instead of by appropriation, did I understand you to say that you could operate under that guaranteed loan program?

Mr. HENNESSY. That would not be the case in IDA because in IDA we are making budgetary contributions. I think the Chairman was asking that question in relation to the ordinary capital payments whereby you put in, say, 10 percent in cash, letters of credit, and you put in the other 90 percent in the form of callable or guaranteed capital. In the past we have always come in for that 90 percent and asked for an appropriation of it, even though in the longest stretch of imagination we never think we are going to call upon it.

He was asking the question why do you continue to appropriate if you don't think you are ever going to call upon it. One of the reasons is that in one institution, the IDB, when they float their bond, it is pretty dependent on the U.S. guarantee, unlike the World Bank that has a number of other donors who also guarantee. So if we didn't appropriate 100 percent of that, of the guaranteed capital, that might affect their capability to raise funds.

But that is a whole different pool of funds than the IDA. IDA doesn't go out and borrow those in the market. Those are just budget contributions from Government and there is no way that we could under a guarantee allow them to come up with those funds. But what we would be willing to study was whether on the guaranteed portion of the capital whether it makes sense to continue appropriating that every year when we really don't think we are ever going to have to call on that.

Mr. MILLER. Thank you, Mr. Secretary.

That is all, Mr. Chairman.

REVIEW AND EVALUATION OF PROJECTS

Mr. LONG. Mr. Secretary, I understand that the World Bank currently has a review system responsible to the management of the Bank. Do you feel that this existing review and evaluation system is suffi-

ciently independent to be a constructive critic within the World Bank?

Mr. HENNESSY. Our state of view is that we think it should evolve to an important independent form over time and I think the indications are that other member governments are agreeing with us and the management itself, but we would be hopeful in the next year or so to be able to bring that about.

I think it is desirable to have a greater degree of independence than now exists.

Mr. LONG. GAO has recommended a completely independent review and evaluation unit. Do you disagree with the GAO recommendation?

Mr. HENNESSY. No, sir, I don't agree at all.

Mr. LONG. Does that mean you agree with it?

Mr. HENNESSY. That means I agree with it and I think we have been negotiating, talking, discussing, with other member governments who had some reservations at the beginning about this. I think they have learned from the IDB experience.

In this case of course where there are many, many other governments involved we do need a somewhat greater consensus than we do in some other institutions but I am very optimistic that at the same time next year we will have either a much higher degree of independence or a complete independence which you suggest and which I think makes sense.

Mr. LONG. The World Bank evaluation unit has issued a number of reports including one on bank activity in Colombia. When the GAO was doing its report on the World Bank did it ask to see these reports of the evaluation unit?

Mr. HENNESSY. Yes; it did. I believe we gave them all of those.

Mr. LONG. That was my next question. Did the Treasury provide these reports to the GAO?

Mr. HENNESSY. We have on a confidential basis and continue to provide it on a confidential basis.

Mr. LONG. What does that mean, confidential?

Mr. HENNESSY. They don't get published.

Mr. LONG. Does that mean Congress can't look at them?

Mr. HENNESSY. No.

Mr. LONG. You mean a Congressman can look at them or committees can look at them?

Mr. HENNESSY. Yes.

Mr. LONG. Can you control our use of them?

Mr. HENNESSY. I think here again the utility of the exercise of having an independent organization which looks at it would be subverted—it would be counter productive—if we published, let us say, a highly sensitive report in certain cases, because it normally involves another country.

In other words, they have gone and looked into Colombia, for instance, and if that was published in the newspapers that they didn't implement loan A as well as loan B, that could be used for political purposes back in the host country.

I think you have to recognize they are very sensitive political documents, and we do ask when GAO looks and/or Congress looks, they do it on a confidential basis.

If there was any wrongdoing, of course, we would not ask the Congress or anyone else to keep that confidential. It is more the political sensitivity part of the equation.

Mr. LONG. The report on the World Bank's loans to Colombia issued by the Bank's own evaluation unit is said to be very good. Is this report available at the Treasury Department?

Mr. HENNESSY. Yes. That is the one we were discussing that is part of the group of reports which the World Bank Group has done and which is available to us and to the Congress on a confidential basis.

Mr. LONG. Could you provide for the record the recommendations of the report and the action taken on them by the Board of Directors?

Mr. HENNESSY. Yes.

[The information follows:]

INTERIM REPORT ON ACTIONS RELATING TO RECOMMENDATIONS OF THE COLOMBIA EVALUATION STUDY

The following pages present an interim review of the actions taken and planned by the Bank to date in response to the recommendations which emerged from the evaluation study of Bank operations in Colombia that was completed by the Operations Evaluation Division of the Programing and Budgeting Department 12 months ago.

Upon completion of its basic work on the study, the Operations Evaluation Unit gave high priority to pursuing the recommendations, which resulted from systematic application of hindsight to history, with the relevant operating departments of the Bank. The first stage in the followup procedure was to secure from all affected operating departments a written response to each recommendation, stating what was being done or was intended to be done in implementation or, in the event of rejection of the recommendation, the reasons therefor; this has been done. The second stage, which is envisaged for about 6 to 12 months from now, is to carry out a review of interim work by the operating departments to see how much progress has been made in implementing the agreed recommendations. At that stage, another report will be prepared by the Evaluation Unit, systematically dealing with all the original recommendations, analyzing what has been done about them, and recommending any further steps deemed necessary.

The recommendations can usefully be divided into three parts: (1) General policy matters; (2) Problems and procedures, usually relating to Bank operations in particular sectors; and (3) Operations in Colombia.

The following paragraphs present each major recommendation in one sentence and then comment briefly on what the relevant part of the Bank is doing, or has undertaken to do, about it.

GENERAL POLICY MATTERS

1. Land reform.—The Bank should reassess the problems of maldistribution of land in Colombia and in some other countries, and earnestly support land redistribution wherever it finds that such reform could contribute substantially to a better pattern of development.

The Bank's attitude on this subject has been evolving rapidly and a revised policy is being developed. A key policy paper on the matter is being prepared for discussion by the Executive Directors in March 1974.

2. Credit for small farmers.—The Bank should seek to develop projects and institutions which could promote more employment-generating agriculture and assist small farmers.

Projects of this nature have been under preparation in an increasing number of countries, and a few have already been approved for financial support. Some project preparation efforts are also now underway in Colombia. A policy paper on the matter is under preparation for discussion by the Executive Directors in April 1974.

3. Housing.—Despite the poor experience of other aid agencies in this field, the Bank should reconsider its refusal to support the housing sector because of its lagging development, its potential for mobilizing local resources, the need for new organizational and physical techniques, and the intimate relationship between this sector and the financial sector.

The Bank Group has made two recent forays into this field, with a sites and services project in Senegal and support for a savings and loan institution in Colombia. Opinions have been divided on the extent of the role that the Bank should play in housing, and so policy papers to elucidate the issues more clearly

are under preparation for presentation to the Executive Directors in March 1974.

4. Smalltown and rural electrification.—The Bank should help develop approaches for serious economic analysis of the priority of electrification programs outside major urbanized areas, and it should help finance schemes which demonstrate economic viability.

The Bank has moved increasingly into financing power distribution (as opposed to generation and transmission), and some rural schemes have been included in projects financed. Further research, including case studies, is underway; and preliminary guidelines have been prepared for the treatment of this subject in the Bank's operations. Broader review at the policy level, of the problems and potentials involved, will be undertaken in a paper planned for presentation to the Executive Directors in the second half of 1974, when the crucial research will have proceeded further.

5. Capital markets development.—The Bank should develop a better coordinated strategy and panoply for helping to strengthen developing countries' domestic capital markets (in the broadest sense), the weakness of which is a serious constraint to effective mobilization and allocation of resources and has a negative effect on the development contribution of Bank projects in various ways.

The Capital Markets Department which was set up in IFC about 2 years ago, has carried out comprehensive reviews and provided advice to nearly a dozen countries (now including Colombia) and is preparing an important paper on the Bank's policy with regard to the financial sector as a whole.

6. Economic reporting.—The Bank should concentrate its scarce economic expertise to a greater extent on highly focused problem-solving studies, draw on a greater variety of outside sources (including local ones in a country) for preparing such reports, and distribute them more widely.

The last years have seen a substantial increase in the number of more highly focused studies (for instance, for Colombia, in the last 12 months, on the agriculture sector and on capital markets), and a greater variety of sources of expertise are being tapped, although there is probably still scope for increasing the use of local talent. Policy with regard to distribution of reports has just been changed to favor much wider circulation wherever possible.

7. Project spread effect.—The Bank should actively seek means for maximizing the spread to other projects and institutions of the technological and managerial innovations introduced in connection with its projects, since the evidence suggests that this spread does not occur automatically.

While the Bank is giving attention to this subject in a number of projects, it appears to need more systematic study in order to identify its potentials and any appropriate general lines of policy. Hence, a special study of the matter, on the basis of selected past projects, is planned by the Evaluation Unit for the forthcoming fiscal year.

8. Public health.—The Bank should consider further broadening its involvement in public health, beyond family planning, insofar as this is an area of need, with important potential contribution to economic efficiency, in which the Bank could make significant institutional contributions.

Some loans for education have included components for training of nurses and paramedical personnel, and some loans for urban and rural development have included small provisions for establishment of clinics. Opinion has been divided on fuller involvement in the field of public health, and research is continuing. A paper proposing appropriate Bank action in the field of nutrition is under preparation for discussion by the Executive Directors toward the end of 1973, and another dealing with the role the Bank could play in the field of public health more broadly is under preparation for presentation to the Directors in the second half of 1974.

PRACTICES AND PROCEDURES

1. Project Monitoring.—More performance targets should be agreed in connection with loans, benefit projections better specified, and systems developed for generating periodic information flows for comparison of actual achievements with these targets and projections.

The need for this is very widely agreed, special efforts have been made in connection with recent projects of more experimental nature (for example, Senegal sites and services and Malawi agriculture development), and the Central Projects Departments are all devoting attention to means of applying monitoring systems for projects in their sectors.

2. Evaluation of consultants.—Even though consultant firms working on Bank projects are normally responsible directly to the borrower, the Bank should, with assistance from the borrower, prepare regular and comprehensive performance evaluations on such teams and, to the extent possible, on individual team members, so as to enable better control and systematic use of past experience in selecting consultants for subsequent jobs and in advising borrowers in their selection.

An appropriate system, covering consultants employed on all types of Bank projects, has been given a pilot test earlier in this year and will now be introduced generally.

3. Transportation—comprehensive planning approach.—The Bank should put greater emphasis on comprehensive transport planning, taking account of interactions with other sectors, especially in cases of countries where it is heavily involved in investment in the transport sector.

The Transportation Department states that it is giving special attention to this matter in operational work and is also deevloping some research work on appropriate analytical methods and approaches.

4. Transportation—regional developmental impact of projects.—More attention should be given to trying to maximize the developmental impact of transport projects on the regions they traverse (as opposed to concern merely with the growth of traffic between the urban areas linked.)

This is a very difficult area in which the evaluation unit has been carrying out further studies covering additional countries and in which the Transportation Department plans a preliminary position paper before the end of this year, to be followed by further experiments and research. Findings of research and studies are being taken into account, as they become available, in operations.

5. Transportation—market structure of transport services.—Standard tests should be applied in analysis of proposed transportation projects to see whether market structure is such that the benefit of transport cost reductions will actually be passed on to users and final consumers/producers.

The Transportation Department is producing guidelines on this matter for use by the operating departments and plans followup.

6. Transportation—vehicle fleet composition.—In consideration of highway design standards, more explicit and detailed consideration should be given to the types of vehicles to be used on the highway.

This subject is now standard as a matter for consideration in connection with highway projects, and the depth of the Bank's understanding of the problem is being increased by a major research project that is underway on the whole matter of highway design standards.

7. Transportation—highway sector lending—When transport institutions are reasonably developed, lending for regional or national programs of highway building is an alternative to lending for individual highway projects which warrants serious study for its greater flexibility in terms of getting the most important roads built to reasonable standards at the right time.

The Transportation Department is preparing a paper for management on this subject.

8. Electric power—central power institutions.—Wherever there are many small power companies, even if a national grid is not immediately economic, it seems useful for the Bank to make a special effort to try to develop a central institution which can take responsibility for appraising and supervising projects, so as to get better planning, plan implementation, and use of other foreign finance.

The Public Utilities Department agrees with this recommendation and has undertaken to watch for opportunities for fostering such development.

9. Electric power—tariff structure.—The Bank should increase its attention to the borrowers' power tariff structures, systematically examining the relationship between charges to different consumer groups and the incremental costs of supply to them and it should consider mechanisms for mobilizing self-help efforts in distribution expansion.

The Public Utilities Department accepts this point and is undertaking appropriate research but it emphasizes the difficulties that can arise in convincing the authorities in some countries to make appropriate rationalizations.

10. Electric power—distribution standards.—The Bank should encourage borrowing power companies to carry on systematic review to define the most appropriate distribution standards under local conditions, economic, financial, social, and technical.

General guidelines on this subject have been issued by the Public Utilities Department and a related research project has been approved.

11. Electric power—financial recording and planning.—Despite the effort that the Bank has devoted to this field further improvements are still needed in accounting systems of some companies particularly in regard to recording and classification of assets and of financial obligations.

The Public Utilities Department is strengthening project appraisal instructions in this connection and preparing more standardized formats for financial tables which should help to get the required emphasis on this matter.

12. Industry—long-term national framework for analysis of major industrial projects.—Industrial projects, especially basic industries, must be analyzed from a national point of view and in a long-term framework if mistakes are to be avoided.

The Industrial Projects Department aprees fully with this recommendation and states that it has been applying the recommended approach in recent years.

13. Industry—disaggregated economic analysis.—The principal components of major industrial projects, not only the project as a whole, should be subjected to detailed cost-benefit analysis.

The Industrial Projects Department points out that his technique is sometimes difficult to apply, but it emphasizes that the attention now given to long-term balance among component parts of projects should avoid repetition of the problem which led to this recommendation; analysis of projects' components has for instance led to substantial restructuring of several recently financed industrial projects.

14. Agriculture—consistency between project objectives and farmers' incentives.—Greater care must be taken to insure that the incentives and the opportunities open to individual farmers are consistent with the objectives of agricultural projects.

The Agriculture Department states that it is giving continuous attention to this in its review of agricultural projects and that it has work underway to improve the analysis of farm budgets and farm plans in the Bank's project work.

15. Education—school operating costs.—The Bank should give more attention to accurate definition in concept and in practice of school operating costs and to the level of such costs for schools financed under such projects as compared with other schools.

The Education Department agreed with the need for improving analysis of school operation costs and it has instructed appraisal missions to pay more attention to the matter; part of the problem lies with poor budgetary procedures in borrowing countries, which it is also trying to improve.

16. Management training for utility services.—The Bank's Economic Development Institute should consider providing courses in utility management in addition to its general courses on improving project preparation and analysis.

The Deveolpment Institute is planning a number of new courses concerned with the utilities field and has one on water supply utilities underway at the present time.

OPERATING IN COLOMBIA

1. Perspective.—To help in the selection of projects and in the provision of other appropriate assistance and advice, the Bank should have a longer run view than it has had in the past of how Colombia's human and physical resources can best be mobilized and combined for development; and it should maintain a periodically updated picture of the key variables such as population, its geographical distribution, employment, savings, and natural resources.

The Bank expects to initiate an appropriate framework for this in the course of its forthcoming eocnomic mission to Colombia.

2. Institution building as the prime project selection criterion.—Institutional and structural constraints to development are so important in Colombia that the Bank should try even more than it has done in the past to select for its project assistance areas where institutional strengthening is vital, such as rural education, labor-intensive agriculture, and housing.

The Bank would not give as much primacy to this criterion as the evaluation report, but it is selecting some projects mainly for their institution-building potential for example, medium cities water supply) and it is including institution-building efforts in some other projects (for example, improvement of the central agency concerned with the development finance companies and preparation of sector plan for power with German technical assistance).

3. Agricultural statistics.—To help in the formulation of better sector policies and effective implementation, the Bank should encourage design of a system for collection of comprehensive and reliable agricultural statistics and, if necessary, finance appropriate technical assistance.

In view of the institutional obstacles, the Bank is doubtful about what can be accomplished in this field, but it will emphasize its dissatisfaction with the present situation to the Colombian authorities and it feels that it may be able to provide some related technical assistance.

4. Promotion of multiple-purpose rural development centers.—The Bank should consider assisting in development and construction of rural centers to serve multiple purposes such as primary education, adult education, public health, agricultural extension, and mobilization for rural works.

The Bank generally agrees with this suggestion, on the basis of recent further investigations, and is considering with the Colombian authorities alternative possible programs; a small contribution has already been started as part of the new education project that is being presented to the executive directors.

5. Capital market development.—The Bank should encourage unification and better regulation of credit markets, particularly by removal of interest rate ceilings, reduction of forced investments by commercial banks, and encouragement for listing of stock.

The Bank largely agrees with the recommendations, recognizing that they are difficult steps with considerable implications which will take time to implement, and it is discussing them with the Colombian authorities in connection with the economic report on Colombia recently done and the new loan to the Colombian DFC's. A separate report on capital market questions is under preparation. IFC has recently helped to get underway, and to provide equity for, a new institution to improve the operation of the short-term money market.

6. Improving allocation and distribution of DFC funds.—If broader measures to improve capital markets prove impossible of achievement in the near future, then the Bank should take steps in connection with further lending to the Colombian Development Finance Companies to improve the allocation of funds, by measures such as lending to the DFC that is concerned with medium- and small-scale industries, raising the interest rate on DFC subloans to a rate which would clear the domestic market, and tying IBRD loans to the DFC's effort to raise funds domestically.

The Bank agrees with these suggestions and is programing a loan for the DFC concerned with provision of financing and technical assistance to medium and small industries. In the meantime it has included provisions in the new DFC loan recently approved for making loan disbursements partly conditional on DFC achievement in raising local currency funds by domestic bond issues, for increasing somewhat the number of DFC's eligible to participate in the loan, and for limiting the amount of Bank funds which may be on-lent to any one borrower. With respect to interest rates it has not yet proved possible, despite considerable Bank efforts, to do more than agree upon a formula to prevent them from becoming negative in real terms.

7. Information flows on DFC subprojects.—The Bank should require better information flows from the DFC's on subprojects during and after their execution, mainly to generate case data which would help the Bank in its advice to government on policies affecting the industrial sector.

The Bank fully agreed with this recommendation and, in connection with projects financed under the new loan, expects to receive much fuller information than it has in the past.

8. DFC promotional activity.—The Bank should pursue with the DFC's their undertaking of promotions in fields with unrealized potentials such as lumber/furniture and coal/chemicals.

The Bank agreed that more emphasis was needed on the DFC's promotional activities and, in connection with the recent loan, encouraged them to engage in such work.

9. Detailed programs of institutional improvements.—For projects selected largely because of institution-building potentials, appraisal reports should contain a clear delineation of the difficulties and, in so far as possible, a precise and phased program for overcoming these difficulties, with periodic performance targets.

The Bank is in accord with the sense of this recommendation and intends to apply it as widely as possible; one case where it is being given particular attention is the fifth railway project now being prepared for financing by the Bank.

10. Priorities in institution building.—In its institution-building efforts, the Bank should emphasize four areas: personnel policies (including training), organizational structure, planning capability, and management information systems.

The Bank has indicated its agreement with this recommendation and intends to give these matters attention in all projects with a major institution-building component such as the one for the medium cities water supply.

11. Government and borrower salary structures.—The Bank should give more attention to adequacy of salaries, salary structures, incentives for training and actual payment of special premia since these seem to be important deficiencies limiting the effectiveness of Colombian Government agencies.

The Bank agrees with this point and has given it special attention in connection with the fifth railway project, but it believes that a more general reform may be required in Colombia for which an indepth study may be the crucial first step; however, it does not believe that such a study has enough priority to warrant Bank effort at the present time, given staff constraints and other areas needing attention.

12. Transportation information system.—The Bank should encourage, and if necessary finance, technical assistance to set up an information system for transportation (reliable traffic counts, detailed costs and tariffs, capacity utilization, fleet composition, etc.) which would enable more adequate appraisal of highway and railway projects and better sector studies and policymaking.

The Bank agrees that transportation statistics in Colombia need improvement and is considering appropriate steps to help, possibly through inclusion of a special provision in the next highway loan.

13. Feeder roads.—After 20 years of lending for trunk highways, the Bank should carefully consider provision of assistance to Colombia for construction of feeder roads, which seem to be a serious transportation bottleneck now, and for strengthening of the agency responsible.

The Bank has undertaken to give special attention to this matter in determining its overall strategy for rural development, although it does not expect to be able to take active steps on the matter in the near future because of deterioration in the administrative capability of the Ministry of Public Works, which has involved postponement of a loan envisaged.

AVAILABILITY OF INFORMATION

Mr. LONG. Very good.

Is the following information available to the Treasury from the World Bank: Loan progress reports, minutes of the Board of Executive Directors, and reports of the Bank's evaluation unit mentioned above?

Mr. HENNESSY. Starting at the end, the loan evaluations are available to us, yes, and the other two are also, the minutes in which we participate, the minutes of the meetings, and the progress reports, I believe, are supplied to Mr. Reynolds on a regular basis or not?

Mr. REYNOLDS. Well, it depends exactly on what you are talking about.

Mr. LONG. The question that I want to raise is which of this information, which is available to the Treasury, would you be willing to furnish to the GAO on request?

Mr. HENNESSY. Which would we not be willing perhaps is the question.

Mr. LONG. State it either way.

Mr. HENNESSY. Minutes here again are politically sensitive documents because they have member governments sitting around a table representing 116 nations commenting on different loan and loan proposals, so that what we have said to the GAO in that particular case is that we are willing to provide the comments and discussions of the U.S. Executive Director, but under the rules and regulations of the organizations themselves, the minutes themselves of other director comments be kept confidential.

EMPLOYMENT AND INCOME EFFECTS

Mr. LONG. Does the World Bank take into account employment and income effects in design of projects?

Mr. REYNOLDS. Very definitely.

Mr. LONG. Well, what weight do they give them in deciding between different projects? The minor factor, marginal, very important?

Mr. REYNOLDS. I would say it is an important factor. As I said before the major factor is the economic return on the project to the development, the productivity of the economy, and it is within that context that these other aspects are looked at but they are very definitely looked at. These economies are economies in which there is great abundance of underemployed labor and the most productive use of capital in these economies is in forms in which it can combine with a maximum amount of that labor and it is these kinds of projects that the institution seeks to promote.

Mr. LONG. I am not quite sure I am more enlightened after I listen to you. I gather that you do take into account income distribution and employment but you feel that productivity is even more important.

Yet anybody who has been around the developing world is greeted by the standard complaint everywhere, the biggest problem is surplus people dumped on the big cities, and productivity as some sort of a national aggregate doesn't have very much meaning if its productivity results in some big pile of goods in some part of the country where there is already a big pile and at the same time dumps huge quantities of people without homes, without livelihoods, and even without family stability onto the cities where you just have a big crime problem, and political unrest, and so on.

It would seem to me that you have to make some kind of a choice here, and wouldn't you agree with that?

Mr. REYNOLDS. I certainly agree these are serious problems. As I say, a major effort in Bank programs at the moment is to boost agricultural production, to increase the opportunities for earning a livelihood in rural areas, to slow up this excessive migration to cities.

Mr. HENNESSY. To work on population programs.

Mr. REYNOLDS. That is right, to curtail excessive population growth.

Mr. HENNESSY. I think Mr. McNamara, every year at the annual meeting of the bank, does give a policy direction speech in addition to what comes out in the annual report.

I think you will see the emphasis has changed. There has been an increased emphasis not only on economic development but social development. There is always, I think, an argument how far to which end of the spectrum you want to go and I think there has to be a balance.

If you just end up providing direct grants to people that may not create any new jobs and they may be poorer in the long run rather than richer. So I think the correct balance has to be struck between education, and the more socially oriented projects which don't have an immediate return, and then the capital intensive ones which do produce more jobs and more income.

I think the Bank has moved more into this area. There is a question how much further they might go without some effect in the longer run viewpoint; that affects the overall view of the individuals also.

It is a concern of ours and I think Mr. McNamara's speeches do lay it out and I think the annual report does try to quantify that more.

We might submit a somewhat more rigorous analysis to you rather than this somewhat wordy discussion we are having.

[The information follows:]

ADDRESS TO THE BOARD OF GOVERNORS

(By Robert S. McNamara, President, World Bank Group, Washington, D.C., September 25, 1972)

I. INTRODUCTION

Last year, in this forum, I discussed a number of problems which were of serious concern as the second development decade got underway. Now that the trend of the decade is becoming more clearly predictable, I want to explore with you today an issue that is central not only to its success, but to the efficacy of the entire development process.

That issue is the critical relationship of social equity to economic growth.

But before turning to that, I should like to:

Report on the Bank group's operations in fiscal 1972.

Review the progress of our 5-year program for the fiscal years 1969–73.

Assess the current state of development throughout our development member countries.

And, based on that assessment, sketch the outline of a program for the Bank for the 5 years 1974–78.

II. THE BANK GROUP'S OPERATIONS IN FISCAL YEAR 1972

Let me begin by touching upon our operations during the past fiscal year. For that period, new loans, credits, and investments totaled $3.1 billion. This compares with $2.6 billion in 1971, $2.3 billion in 1970, $1.9 billion in 1969, and $1 billion in 1968.

To finance growing disbursements, and to increase the level of liquidity, the Bank borrowed, net of retirements, $1.1 billion during the year. This brought our liquid reserves to $3.2 billion—up $700 million from June 30, 1971. Net income for the year was $183 million, excluding a gain on revaluation of $51 million.

The year, then, was a productive one operationally. But as I have indicated to you before, the development task before us requires that we plan on a broader scale than year-to-year operations make possible. That is why in the fall of 1968, when I first met with you, I proposed a 5-year program. That program will be completed next June 30, and I want to report to you now on its progress.

III. THE BANK GROUP'S 5-YEAR PROGRAM

You will recall what we set out to accomplish. Our analysis of the overall requirements for economic progress in our developing member countries convinced us that we should greatly broaden and expand the Bank group's operations both in scope and in size.

We proposed as our overall lending objective that we should double the Bank group's operations in the period 1969–73, as compared with the period 1964–68. Were we to achieve this goal, it would mean that during the 5 years the volume of lending would approach the total amount lent during the previous 23 years of the Bank's operations.

I can report to you today that we will not only meet that goal, but will surpass it.

But it was not principally the size of our operations which concerned us when we launched the 5-year program. We did not merely want to do more. We wanted to do more of what would contribute most to development.

Thus, within the overall lending program, we were resolved to shift our emphasis both into different sectors and into different geographical areas.

What does that mean in practice?

In a developing world in which hunger is chronic, it means intensifying our efforts in agriculture. We have quadrupled our operations in that sector.

In a developing world darkened by functional illiteracy, it means expanding our efforts in education. We have tripled our operations in that sector.

In a developing world caught up in the threat of unmanageable population pressures, it means facing up to that complex and controversial problem. We have established a population projects department, and we have launched important initiatives in that sector.

In our previous meetings, I have stressed the damaging effect of runaway population growth on a developing economy. I have pointed out the strains this creates both at the family and the national level for any country struggling to improve the quality of life for its people.

Overly rapid population growth simply erodes and dissipates development gains in every sector: Savings evaporate, scarcities multiply, resources are stretched so thin that in the end they cannot cover the most essential needs.

While the population problem is clearly one which cannot be solved within the confines of a 5-year plan, or a development decade, or indeed even during what is left of our century, it is by its very nature a problem that can grow only worse with procrastination and delay. That is why we believe the entire international community must assign it the highest priority.

The Bank's initial work in the population field consisted of sector missions to a dozen different countries and projects deliberately initiated in smaller member countries in order to provide us with working experience on a scale commensurate with our new capabilities.

But in the early summer of this year we approved far-reaching projects in two of our largest member nations: India and Indonesia.

The project in India—a joint effort with the government of Sweden—will develop what promises to be the most advanced systems approach to the population problem in any developing country. It will provide the essential information and analysis required to shape the overall massive effort India is making to reduce its current population growth.

Both the size of India's problem, and the magnitude of its effort to solve it, can be grasped in the statistics. The nation's total population now stands at over half a billion. It is growing by an additional million each month. The government has set up an organization of 80,000 persons to administer a family planning program to serve 100 million couples. The Bank project is designed to help support that program with the experimentation and the systems analyses required to make it effective.

Like India, Indonesia is serious in its determination to provide its people with effective family planning assistance. With a population of more than 120 million, currently growing at an annual rate of 2.5 percent, it ranks fifth among the world's most heavily populated countries. Some two-thirds of its people live in Java and Bali, where the average density is nearly 1,600 persons per square mile.

With the participation of the U.N. Fund for Population Activies, WHO, UNESCO and UNICEF, the Bank project provides $13 million for a greatly expanded family planning program. In addition to the construction of 300 health centers and the provision of the required vehicles and equipment, the project will help finance the training of several thousand field workers, the preparation of public school curricula, and a program of research and evaluation.

Should the overall objectives of the project be reached—and both the Government and we are confident that they can—Indonesia's population by the end of the century, even though it will be twice as large as it is today, will be 50 million less than it would otherwise be.

What all this demonstrates is that our 5-year program has shifted the Bank's emphasis toward those sectors which is today's conditions require intensified effort: agriculture, education, and population, among a number of others.

But as I have indicated, our shifts in emphasis have been geographical as well as sectoral. In Africa, we expect to more than treble our lending over the previous 5-year period.

And for the group of our poorest member countries—those whose per capita incomes average less than $100—we will quadruple our lending.

To achieve these goals has, of course, required a substantial strengthening of the Bank Group, both organizationally and financially. The professional staff, for example, by the end of the 5-year period will have increased by 125 percent.

Recruitment of highly qualified staff, representing the broadest possible geographical experience, has been facilitated by a worldwide interest in the work of the Bank. In the past year, more than 2,400 candidates, from 98 countries, applied for 52 available openings in our Young Professionals program.

Doubling the volume of our lending operations has meant, of course, that we had greatly to expand our borrowing capacity. This, in turn, depends on governments granting us access to their countries' capital markets. Despite recurrent and unsettling readjustments in the international monetary system. They have continued to do so.

Not only have we continued to borrow in our more traditional markets, but we have entered new markets as well, and have utilized new borrowing instruments, and new channels of distribution. Net borrowing for the 5-year period will approximate 3¾ times that of the earlier period and liquid reserves will increase by about 125 percent.

Neither the expansion of operations nor the shift into less traditional sectors of lending has adversely affected net income. On the contrary, total net income during the 5-year period will be approximately 30 percent higher than that of the previous period, and this despite a significant increase in the subsidy to the developing countries implicit in the Bank's lending rate.

Organizationally, then, and financially, the Bank Group will complete the first 5-year program in a position of strength.

But while encouragement over the Bank's operations is one thing, complacency with the state of development is quite another. And there is little danger of confusing the two if we take an objective look at the current prospects of the developing nations.

IV. THE STATE OF THE DEVELOPING WORLD AND THE BANK'S PROGRAM FOR FISCAL YEAR 1974–78

In its strategy for the second development decade, the United Nations set as a target that the average annual rate of growth in gross national product for the developing countries should be at least 6 percent. To make that possible, the developed countries were to increase their concessionary aid—known as official development assistance—to 0.7 percent of their GNP's by 1975.

As I pointed out earlier this year at the U.N. Conference on Trade and Development in Santiago, it is now clear that the objective of 0.7 percent will not be reached. There seems little likelihood that, during the first half of the decade, official development assistance will exceed 0.37 percent of GNP—only half of the second development decade target (see attached table).

That is regretable in the extreme, but we must be realistic. And realism dictates that we try to assess the effects of this massive shortfall in concessionary aid.

The first, and least tolerable, of the effects is that the poorer of our member countries—those with per capita GNP's of less than $200—will be penalized the most. Their needs for official development assistance are the greatest, and their chances for finding feasible alternatives are the least.

What is more, these countries collectively contain 1.1 billion people, 64 percent of the aggragate population of our entire developing country membership. They are the very countries which have suffered the greatest burdens of poverty during the past decade. Their GNP's grew annually at an average rate of only 4.1 percent and their per capita incomes at a minisicule 1.7 percent.

With the ODA objective only half achieved, these poorer nations have almost no hope of attaining the 6-percent growth target. That will condemn them to so slow an economic advance over the decade that hundreds of millions of individuals within these countries will be able to detect virually no improvement whatever in their desperately low standards of living. Their per capita incomes will rise by no more than $2 a year.

Projected to the end of the century—only a generation away—that means the people of the developed countries will be enjoying per capita incomes, in 1972 prices, of over $8,000 a year, while these masses of the poor (who by that time will total over 2¼ billion) will, on average, receive less than $200 per capita, and some 800 million of these will receive less than $100.

The deficit in development assistance will penalize the poorest countries the most. But even for those developing countries which are somewhat better off, a deficiency in ODA will cause serious economic and financial problems.

Publicly guaranteed debt in the developing world currently stands at about $75 billion, with annual debt service of approximately $7 billion. Debt service payments rose by 18 percent in 1970, and by 20 percent in 1971, representing twice the average rate of increase over the 1960's, and reflecting a hardening of the terms of debt as the proportion of concessionary aid in the total flow of external assistance to developing countries declined.

Given the shortfall in ODA, and the growing debt problem, it seems clear that the World Bank group should try to continue to expand its operations. If we were to fail to make this effort, our developing member countries would be driven to an even greater dependence on higher-cost, shorter-maturity sources of external capital with the inevitable exacerbation of their debt-servicing burdens. They would have little choice, for without a reasonable flow of external finance, they simply cannot meet even minimal development requirements.

For the Bank group to relax in its resolve to do everything it feasibly can to assist in this situation would be to shirk our central responsibility: to recommend those policies, provide that technical assistance, and help finance those projects which will most effectively support our developing member countries' own struggle to advance the welfare of their people.

With careful planning and your support, we are convinced that the Bank group can obtain the necessary funds to continue to expand its operations during a second 5-year program. And that is what we propose to do.

As an overall goal, for the period fiscal year 1974–78, we propose to increase our financial commitments to our developing member countries by an average of 11 percent a year, and to shift an increasing percentage of these commitments to International Development Association credits.

If we can achieve this expanded level of operations—and I am confident that it is possible—it would mean that the World Bank group would help finance, and provide technical assistance, for some $50 billion of capital improvements in our developing member countries during the second 5-year program period. This would be in contrast to $30 billion of such projects from 1969 to 1973, and $13 billion from 1964 to 1968.

V. SOCIAL EQUITY AND ECONOMIC GROWTH

Given the unfortunate shortfall in ODA, the consequent aggravation of the debt problem, and the procrastination of the developed countries in dismantling discriminatory barriers to trade from the developing countries, the second development decade's 6 percent growth target is not going to be met by many nations and is going to be an exceptionally arduous task for many others.

But let us suppose that it were, in fact, to be accomplished by 1980.

Would that achievement, in itself, guarantee a significant advance in the quality of life for the majority of the 2 billion people who live in our developing member countries?

The frank answer is no.

The answer is no because increases in national income—as essential as they are—will not benefit the poor unless they reach the poor.

They have not reached the poor to any significant degree in most developing countries in the past, and this in spite of historically unprecedented average rates of growth throughout the sixties.

To understand this, it is useful to distinguish between three broad categories of poverty in the developing world.

First, there is great poverty in those countries, generally rather small, which simply have very few resources—natural, financial, or skilled—with to promote growth. There is so little wealth in these nations that even if it were more equitably distributed, virtually everyone would still be very poor. These are the countries (there are 25, with populations totaling 140 million) which the United Nations has designated as the least developed and for which special measures of assistance have been approved.

Second, there are particularly impoverished regions in most of the larger developing countries—for example, the southern republics of Yugoslavia, the northeast of Brazil, or the northeast of Thailand. The integration of these regions into the more rapidly growing parts of the economy often poses difficult cultural as well as economic problems. These areas are, however, readily identifiable geographically, and it is possible to devise and implement programs specifically aimed at increasing the productive capacities and incomes of their populations.

But it is the third category that is the largest, the most pervasive, and the most persistent poverty of all. It is the poverty of the low-income strata—roughly the poorest 40 percent—of the total population in all developing countries. It is they who—despite their country's gross economic growth—remain entrapped in conditions of deprivation which fall below any rational definition of human decency.

This is not simply the poverty of a highly disadvantaged country, nor of a particularly backward geographical region in an otherwise rapidly advancing coun-

try. Rather, it is the poverty of those people widely dispersed throughout every developing country who, for whatever reason, lie beyond the reach of traditional market forces and present public services. It is the poverty of those masses of the population which current government policies do not adequately encompass, and which external assistance cannot directly reach.

This poverty of the poorest 40 percent of the citizenry is of immense urgency since their condition is, in fact, far worse than national averages suggest. Our studies, for example, indicate that:

In 10 countries, with per capita incomes averaging $145, the poorest 40 percent of the population receive a per capita income of only $50.

In another 10 countries with per capita incomes averaging $275, the poorest 40 percent of the population receive a per capita income of only $80.

What we are dealing with here are problems that are difficult to grasp in their concrete, day-to-day realities.

When we reflect that of the more than half a billion persons living on the Indian subcontinent, some 200 million subsist on incomes that average less than $40 a year, how are we to comprehend what that really implies? The estimate is that if India were to depend exclusively on the growth of national income to solve its massive nutrition problems, it would require more than 30 years before the poorest third of the country could afford an adequate diet.

When we reflect that of the 2 billion persons living in our developing member countries, nearly two-thirds—some 1.3 billion—are members of farm families, and that of these there are some 900 million whose annual incomes average less than $100, what frame of reference are we to call on to make that fact meaningful?

To many in the affluent world, to be a farmer suggests a life of dignity and decency, free of the irritation and pollution of modern existence; a life close to nature and rich in satisfactions.

That may be what life on the land ought to be. But for hundreds of millions of these subsistence farmers, life is neither satisfying nor decent. Hunger and malnutrition menace their families. Illiteracy forecloses their futures. Disease and death visit their villages too often, stay too long, and return too soon.

Their nation may be developing, but their lives are not. The miracle of the Green Revolution may have arrived, but for the most part, the poor farmer has not been able to participate in it. He simply cannot afford to pay for the irrigation, the pesticide, the fertilizer—or perhaps even for the land itself on which his title may be vulnerable and his tenancy uncertain.

His nation may have doubled or tripled its educational budget, and in the capital city there may be an impressive university. But for 300 million children of poor farmers like himself there are still no schools—and for hundreds of millions of others if a school, no qualified teacher—and if a qualified teacher, no adequate books.

His nation may be improving its communications, and jet aircraft may be landing at its international airport in increasing numbers. But for the poor farmer who has seldom seen an airplane, and never an airport, what communications really means—and what he all too often does not have—is a simple all-weather road that would allow him to get his meager harvest to market when the time is right and the prices are good.

Let us be candid.

What these men want are jobs for their survival, food for their families, and a future for their children. They want the simple satisfaction of working toward something better; toward an end to misery, and a beginning of hope.

We are not talking here about a few maladjusted discontents.

We are talking about hundreds of millions of desperately poor people throughout the whole of the developing world. We are talking about 40 percent of entire populations. Development is simply not reaching them in any decisive degree. Their countries are growing in gross economic terms. But their individual lives are stagnating in human terms.

What can be done?

That is the question I want to explore with you now.

VI. A PLAN OF ACTION

One must begin by analyzing the policy options which are generally proposed. They present clearly conflicting schools of thought.

One view is that governments in developing countries should make rapid economic growth the first objective, and that income redistribution and increased employment can be achieved later through fiscal and institutional changes.

Others argue that the growing pressures of poverty are so overwhelming that their widespread relief should be the central objective of development strategy, even if that entails major sacrifices in the pace of overall growth.

Of course it would be comforting to continue to believe that there is no conflict between rapid overall growth and comparable improvement in the incomes of the poor. But, unfortunately, in the real world in which we live, the evidence suggests that there is.

There is a natural tendency for growth to be concentrated in the modern sectors of the economy with little current benefit to the lowest income groups. What data there are—while admittedly incomplete—indicate that this pattern of growth has developed in many countries.

But if few dispute the fact that there exists some conflict between maximization of growth and the rapid reduction of poverty, many argue that in the long term the conflict is irrelevant since it can—given sufficient time— be resolved. In the long term, rapid growth will increase productivity, and furnish the resources which can be redistributed to those who cannot yet be accommodated in the high-productivity, high-wage, modern sector.

The same view holds that even in the shorter term—in a decade, say—it is possible at least to reduce the conflict between rapid growth and more equitable income for the poor by shaping an economy which provides the proper incentives, which prices labor and capital correctly, which strengthens the fiscal system, and which emphasizes the right adaptive technologies.

But although this argument is correct as far as it goes, it doesn't go far enough. A decade may be the short term for a development planner. But a decade is the long term for a subsistence tenant farmer whose children are most likely to die before the age of five, whose diet is already so inadequate that he cannot stave off chronic ill health, whose illiteracy limits his future ability to learn new skills, and whose perpetual indebtedness to the money lender and dependence on the landowner leave him neither options nor hope.

On the other hand, one must recognize that if a government were to initiate policies to increase the income growth of the lowest 40 percent of the population—with a view to assuring that, at a minimum, their share of the nation's overall economic growth does not decline as it has in the past—there are legitimate questions as to what the impact of such policies would be on the rate of overall national growth. Would it seriously hamper it? Would it prevent it altogether? What precisely would happen?

There are at least three possible consequences of economic policies directed to more equitable income distribution which are thought to hamper growth. They are: reduced entrepreneurial incentives; lower savings rates; and the choice of obsolete technology.

Let us consider these for a moment.

It is often suggested that wide disparities in income are necessary in order to provide entrepreneurial incentives. Without arguing whether such incentives are important stimuli to productivity, one can question the amount of incentive that is required to motivate the desired degree of effort.

In a study of the income disparities of 39 developing countries, in which the income of the wealthiest 5 percent is measured as a multiple of the bottom 40 percent, there is a wide range of differences among countries. There are 8 countries in which the per capita income of the top 5 percent is more than 30 times greater than that of the lowest 40 percent. There are 16 countries in which the ratio is less than 15 to 1.[1]

But the significant point is that when one compares these two sets of countries on their per capita growth performance during the 1960's, there is no discernible relationship between the size of the incentives and the rapidity of the growth. The average rate of growth of the group of countries with the greatest disparities was not significantly different from the group with the least. This indicates that there may well be substantial scope in the developing countries for moderating the highly skewed disparities in income without crippling the incentives to greater productivity.

Similarly, flexibility in the relationship between income distribution and the volume of savings available for socially productive investment may, in fact, be far greater than is generally assumed. While it is true that higher incomes permit a higher rate of savings, the real question is what becomes of those savings. If they are used for production of luxury goods to meet a demand pattern dis-

[1] In the United States, the ratio is 5 to 1.

torted by a skewed income distribution, it is questionable whether the high savings rate is, in fact, promoting any crucial national interest. If, on the other hand, a more equitable distribution of income results in a somewhat lower gross rate of savings, but more investment in the production of essential commodities, the lower rate of growth in national income may be accompanied by an increase in the incomes of the bulk of the population.

Finally, there is the question of the choice of technology. It is often asserted that rapid economic growth demands adoption of technologies which, by their very nature, penalize employment and perpetuate poverty. The argument is that unless the modern sector is so equipped, its inefficiencies will restrict the country's capacity to export and perpetuate a costly dependence on imports for even the most basic requirements.

But here again, the argument is oversimplified. The issue is not so much modern technology versus traditional technology. The real issue is efficient technology versus inefficient technology, and the essential question is how ought one to measure that efficiency. Efficiency as such is a relative term. A technology is efficient or inefficient relative to the resources one has available. In a labor-scarce, affluent, developed economy, the most efficient technology is capital—intensive and highly automated—it produces at the lowest cost per unit in terms of the scarce resource: labor.

But in a developing economy, where labor is abundant, and sophisticated skills are scarce, it is clearly inefficient to emulate technologies which lead to high costs per unit measured in terms of the scarce resource: capital. And yet that is the result when, in the rush to industrialize, developing countries subsidize capital by creating a structure in which foreign exchange is undervalued, credit is underpriced, and tax incentives misdirected.

If government policy were directed toward promoting a price structure which reflected the scarcity values of labor and capital more realistically, the technological choice would be different. The result would be greater employment, broader income distribution, and more competitive patterns of production of precisely those labor-intensive goods which labor-scarce affluent countries need, but cannot themselves produce inexpensively.

What, then, are we to conclude from this analysis?

The answer is that while we obviously do not know as much as we want to know about the relationship of more equitable income distribution to overall economic growth, we know enough to conclude that:

> It is possible to design policies with the explicit goal of improving the conditions of life of the poorest 40 percent of the populations in the developing countries—and that this can be done without unacceptable penalties to the concomitant goal of national growth.
>
> Without specific emphasis on such programs, there will not be significant progress in reducing poverty within acceptable time periods.

We know, in effect, that there is no rational alternative to moving toward policies of greater social equity.

When the highly privileged are few and the desperately poor are many—and when the gap between them is worsening rather than improving—it is only a question of time before a decisive choice must be made between the political costs of reform and the political risks of rebellion.

That is why policies specifically designed to reduce the deprivation among the poorest 40 percent in developing countries are prescriptions not only of principle but of prudence. Social justice is not merely a moral imperative. It is a political imperative as well.

What then, can be done to attack the problem of massive poverty within the developing world?

The first and obvious step is the political resolve to make the effort.

It is clear that in the end each country must make its own decison as to how and when to deal with its internal inequities. The problems of poverty are rooted deeply in the institutional frameworks, particularly in the distribution of economic and political power within the system. Outside agencies can assist but cannot solve such problems. It is governments that have the responsibility of essential domestic reform, and there is no way they can escape that responsibility. To postpone reform on the grounds of political expediency is to invite political extremism. To remain indifferent to social frustration is to foster its growth.

Political will, then, is the first requisite.

Public understanding is the second. The fact is that all of us need a clearer perception of the problem. We need both more and better quantitative data on past and current trends in employment and in income distribution. And we need them urgently. I propose that the developing countries address this task of gathering income data, and that as a practical matter they set a target date of 1975 for a greatly expanded program of censuses, sample surveys, and specific studies. The international agencies—our own included—can assist technically and financially, and provide a multilateral forum for this effort.

Third, all of us need to identify concrete policies and actions which can reduce the skewness of the income distribution. Admittedly, we are on the frontier of a new field of knowledge here, and we have far more questions than we have answers. But the urgency of the situation is such that we simply cannot wait until all the answers are in. We must begin now with what we know now. And we clearly know enough to at least make a beginning. If we make mistakes we will simply have to learn from them. But the greatest mistake of all would be for the international development community to sit back and continue to do in the future what it has done in the past: to ignore the problem. It is the time for new approaches.

What ought they to be?

The first step should be to establish specific targets, within the development plans of individual countries, for income growth among the poorest 40 percent of the population. I suggest that our goal should be to increase the income of the poorest sections of society in the short run—in 5 years—at least as fast as the national average. In the longer run—10 years—the goal should be to increase this growth significantly faster than the national average.

Given the intimate link between poverty and massive unemployment, unemployment and underemployment must be attacked head-on. With 20 percent or more of entire populations already jobless or virtually idle—and with the population explosion pouring a growing stream of new entrants into the labor pool each year—unless policies and programs are devised to absorb surplus labor into productive jobs, little can be done to improve the lot of the desperately poor. Job creation must therefore become a direct objective in itself. It will be necessary to organize rural and urban public works—the building of market roads; construction of low-cost simple housing; reforestation programs; expansion of irrigation and drainage facilities; highway maintenance, and similar low-skill, labor-intensive, and economically useful projects. The Bank will assist in financing such projects.

Institutional reforms to redistribute economic power are critically required in many developing countries: land reform, corporate reform, tax reform, credit and banking reform, and many others. Continuation of the existing land tenure patterns, tax laws, and banking regulations will simply assure that the present distribution of assets and income will be perpetuated. The Bank will support reforms in these areas with technical and financial assistance.

Shifts in the patterns of public expenditure represent one of the most effective techniques a government possesses to improve the conditions of the poor. Too often these expenditures—on health, on transport, on water supply, on education, and on many other sectors—end by benefiting the already privileged far more than the mass of the disadvantaged.[2] This, in part, is because these services are more concentrated in the urban areas and better neighborhoods. But it is also a function of the greater participation of the highly privileged in the political process. Governments can best begin to shift public expenditure towards those who need it the most by initiating surveys on the effects of their current patterns of disbursement: where do the funds really go, and who benefits the most? The Bank will assist in such surveys and, based on them, will help design programs, to be financed by it and others, which will improve the distribution of public services.

Finally, policies should be undertaken to eliminaate distortions in the prices of land, labor, and capital. To underprice capital for the wealthy and make credit expensive for the poor; to allow liberal access to scarce resources for the privileged, and price them out of reach of the deprived; to provide subsidies for the powerful, and deny them to the powerless—these are wholly self-defeating approaches to development. Such policies lead a nation inevitably toward economic imbalance and social instability.

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[2] This is strikingly illustrated in the access to public services. School enrollment ratios and the quality of education, for instance, are almost uniformly higher in the higher income groups. And, in a sample of 20 developing countries, the allocation of scarce foreign exchange was 10 times greater for the importation of private cars than for public buses.

These, then, are the general measures which all of us in the internal development community should move toward with all the urgency that we can command. We in the World Bank Group can assist our developing member countries in this effort, and we fully intend to do so.

VII. SUMMARY AND CONCLUSIONS

Let me summarize and conclude the argument I have put before you this morning.

Current development programs are seriously inadequate. They are inadequate because they are failing to achieve development's most fundamental goal: ending the inhuman deprivation in hundreds of millions of individual lives throughout the developing world.

Why are these programs failing?

There are two overriding reasons: the affluent nations are not moving effectively enough to assist the indigent nations; and the indigent nations are not moving effectively enough to assist the poorest 40% of their own populations.

The affluent nations have, of course, their own domestic priorities. But their growing incremental income is so immense, their technological capacity so powerful, and their whole range of advantages so disproportionately gigantic, that no rational argument can be made for their refusal to do more to assist the disadvantaged nations.

Collectively, the affluent nations are currently providing only half the targeted 0.7% of their GNP's in the official development assistance which will make so decisive a difference to the development efforts of the poor countries. These amounts of money are miniscule in light of the left that the collective gross national products of the developed nations, which totaled $2,000 billion in 1970, are expected to grow to more than $3,000 billion in 1980.

The rich nations are not being asked to diminish their riches in order to help the poor nations. They are only being asked to share a tiny percentage of their continually increasing wealth.

Further, the rich nations are failing the poor nations—and themselves—in another critical respect. They are refusing to give the poor nations a more reasonable opportunity to trade fairly with them. Discriminatory trade restrictions on the part of wealthy countries are indefensible on two counts: they penalize the people of the poor countries, and they penalize their own domestic consumers. The trade problem is admittedly complex, but the essence of it is simple enough. The political pressure of special-interest groups in affluent nations are prevailing over the interests of the majority of ordinary citizens in rich and poor countries alike.

If the rich nations do not act—through both aid and trade—to diminish the widening imbalance between their own collective wealth and the aggregate poverty of the poor nations, developments simply cannot succeed within any acceptable time frame. The community of nations will only become more dangerously fragmented into the privileged and the deprived, the self-satisfied and the frustrated, the complacent and the bitter. It will not be an international atmosphere conducive to tranquility.

The developed nations, then must do more to promote at least minimal equity in the distribution of wealth among nations.

But the developing nations must do more as well.

Their internal equity problems are no less important than those of the international community at large. In the developing nations' pursuit of rapid economic growth, the poorest 40 percent of their populations are being largely left behind.

It is becoming increasingly clear that the critical issue within developing economies is not simply the pace of growth, but the nature of growth. The developing nations achieved an overall average annual GNP growth rate of more than the targeted 5 percent by the end of the sixties. But the social impact of that growth was so severely skewed, and the number of individuals all but passed by so absolutely immense, that the simple statistical achievement of that target was misleading.

Governments exist to promote the welfare of all of their citizens—not just that of a privileged few. Absolute egalitarianism is as chimerical as absolute laizzez-faire, but what is certain is that absolute human degradation—when it reaches the proportions of 30 to 40 percent of an entire citizenry—cannot be ignored, cannot be suppressed, and cannot be tolerated for too long a time by any government hoping to preserve civil order.

It would be naive not to recognize that that time in many quarters of the world is running out.

The task, then, for the governments of the developing countries is to reorient their development policies in order to attack directly the personal poverty of the most deprived 40 percent of their populations. This the governments can do without abandoning their goals of vigorous overall economic growth. But they must be prepared to give greater priority to establishing growth targets in terms of essential human needs: in terms of nutrition, housing, health, literacy, and employment—even if it be at the cost of some reduction in the pace of advance in certain narrow and highly privileged sectors whose benefits accrue to the few.

Such a reorientation of social and economic policy is primarily a political task, and the developing countries must decide for themselves if they wish to undertake it. It will manifestly require immense resolve and courage.

The task of political leadership in the wealthy world is to match that resolve and courage with a greater commitment to equity between their own affluent nations and the grossly disadvantaged developing nations.

I believe that no one within this forum would deny that the time for significantly greater social and economic equity both among nations and within nations has indeed come.

Given more than a million years of man's life on earth, it has been long in arriving.

Now that it is here we cannot escape asking ourselves where our responsibilities lie.

It seems to me that the character of our entire era will be defined by the shape of our response.

PROJECTED FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE MEASURED AS A PERCENT OF GROSS NATIONAL PRODUCT[1]

	1970	1971	1972	1973	1974	1975
Australia	0.59	0.52	0.59	0.59	0.59	0.60
Austria	.13	.06	.17	.19	.22	.25
Belgium	.48	.49	.54	.58	.62	.66
Canada	.42	.37	.48	.51	.55	.59
Denmark	.38	.43	.48	.53	.58	.64
France	.68	.68	.65	.65	.65	.65
Germany	.32	.34	.33	.36	.36	.38
Italy	.16	.17	.16	.16	.16	.16
Japan	.23	.23	.28	.32	.36	.40
Netherlands	.63	.60	.70	.74	.76	.78
Norway	.32	.33	.47	.56	.67	.75
Portugal	.61	.75	.45	.45	.45	.45
Sweden	.36	.45	.50	.56	.65	.71
Switzerland	.15	.12	.22	.26	.30	.32
United Kingdom	.37	.41	.41	.41	.45	.46
United States	.31	.32	.30	.28	.26	.24
Total	.34	.35	.36	.36	.36	.37

[1] Countries included are members of OECD Development Assistance Committee, accounting for more than 95 percent of total Official Development Assistance. Figures for 1970 and 1971 are actual data. The projections for later years are based on World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) for 1975.

BASIC PROBLEMS IN DEVELOPING COUNTRIES

Mr. LONG. It doesn't seem to me that either of the two things you are talking about is the answer; you know, hospital, health, lunch programs. I was looking at Jamaica and the thought occurred to me while I was there these are probably very successful programs.

They were. You do see the hospitals. They function. You do see the school lunch programs. They do work. They are feeding people. And yet it may very well be that in a larger sense far from helping, they hurt, because the biggest problem, I think you would agree, in Jamaica, as in other of the underdeveloped countries, is make the heads of families feel a real sense of responsibility, a real sense of motivation.

In Jamaica, after a good deal of questioning, I find it is the women who have the motivation, not the men. They know who their children are. They know who the babies are and really go out and work. They will walk miles to get a job and the men won't. They just sit there and couldn't care less.

On the other hand, just piling up a lot of goods, like giving a loan to a big bakery, or producing a lot more chickens; that does produce more food for the country as a whole but whether it ever reaches down to the people who are living on these mountainsides and barely surviving now or who are dumped into the cities as an underemployed or unemployed proletariat is something that nobody has been able to really to put his finger on anywhere in the world.

Mr. HENNESSY. It is not very amenable to precise analysis but the Bank in each loan does make some comment on the employment effects.

Mr. LONG. It is easy to make comments. I am just wondering whether they really grapple with it. I was trained as an economist and most of my life I thought economics was the most important subject there was: that you could solve everything if you produced enough goods.

I no longer feel that way. I feel that our problems are more social and political. Unless you can find some way of dealing with them, you are not tackling the problem of the poor countries.

Mr. HENNESSY. I think that goes to the heart of the problem. It is hard though because the size of the pie is so small to begin with. Even if you just distributed one equal piece to each person, I think you would still find everyone was pretty bad off, so somehow they have to grow and still take care of the income distribution and employment problem.

There has to be some balance there, and I think how to strike the balance, not going too far to one extreme, is the real problem. I think the World Bank feels it has to do much more in the income distribution and employment fields.

Mr. LONG. Take a country like Brazil. You are assuming that if you can keep on increasing the national product of Brazil by 10 percent a year, the poor people are going to get their share of that, and that sooner or later they are going to benefit by all this. I think people are becoming more and more skeptical about this. Certainly there are reasons for reservations when you see them dumped into these awful slums that you see, hanging on all the hills in all these underdeveloped countries.

They are not better off. When you see the crime problem, it is increasing. That is not an improvement. And in the end, so far as politics are concerned, you may very well be simply providing these people with a picture window right on to the prosperity of others, so that all they get out of all this is to see how magnificently the 10 to 15 percent live. And they get more and more unhappy, more discontented, and more enraged.

I am studying this from the standpoint of what you do to try to keep the people on their little family plots and help them produce more food and stay there and keep their families around them and bring up their kids and so on.

It doesn't seem to me the World Bank, in the types of projects you are talking about, is thinking about that in those terms at all.

Mr. HENNESSY. I think they are giving attention.

Mr. LONG. I don't know whether it can be done, you understand. It may be an impossible job.

Mr. HENNESSY. I think in terms of the quality of the people at the World Bank, we should note that they have brought in Hollis Chenry, a foremost economist, who was at Harvard before. So in terms of inputing from universities their most recent thoughts, I think they are very sensitive to that, and they are carrying out some pilot projects.

There is a question of what you can do. They have had some projects in the farming areas which have looked at communities, and I think there again the returns aren't in from all of those. But it is a difficult area and an area in which the bank is pioneering. I think our own AID has pioneered in certain other aspects, and out of this will come some more knowledge and experience, I think.

Mr. REYNOLDS. To compare what the Bank is doing today with 5 or 6 years ago, I think you will see very considerable movement in the direction of coping with the kinds of problems you talk about.

Mr. LONG. Can you quantify that, not on the small farms, but the small business community cooperatives?

Mr. HENNESSY. Oh, yes.

Mr. LONG. The word "small" business is a very badly abused term. Small business in the United States takes in every kind of butter-and-egg business I had as a kid, or selling newspapers, on up to firms with a hundred or a thousand employees. Their firms are all lumped as small businesses because they are smaller than General Motors, so I ask you to tell us about small business. I hope you will keep it small.

Mr. HENNESSY. That includes Chrysler.

Mr. LONG. Or that bakery I saw in Jamaica, which is second largest bakery in Jamaica, they told us, and run by a Chinese, incidentally, and not a Jamaican, so it wasn't really the kind of typical type of industry that you are trying to help along.

Mr. ARMSTRONG. Mr. Long, may I just make a comment?

I think from the general sort of political standpoint of relations to developing countries that this social problem is tremendously important just on the terms in which you have described it.

I do think that there has been an enormous change, qualitative change, in the attitude of the World Bank and its cluster of institutions since Mr. McNamara went there, because I know how personally motivated he is.

Mr. LONG. How long has he been there? About 5 years?

Mr. ARMSTRONG. About 5 years. He is very strongly motivated exactly on these points and concerned very much with how do you get a reasonable atmosphere for social growth at the same time you get economic growth and avoid stagnation, especially in view of this overwhelming population problem, but nobody has any answer. Also I would say within the Development Assistance Committee in the OECD a great deal of attention has been given to this also.

That is where all the donor countries meet together to talk about their attitudes. I know Ed Martin, who is the American chairman of that committee, is also profoundly concerned with precisely this same kind of question and it is the most important question that is to be asked in regard to development, but I do think the Bank has made an enormous change.

Mr. LONG. What is your philosophy of development or what do you feel is the Bank's philosophy of development? I used to think it was great if we could just keep on expanding the U.S. GNP by 5, 6, 7, or 8 percent. I think we are all retreating from that now, you know, asking ourselves about the quality of life.

You look at these people in some of these underdeveloped countries, and it is pretty clear they are just as happy as we are at least. There is an awful lot of unhappiness in a highly developed country like America. I mean when they are out on their little ancestral places they are infinitely more happy there than when they become part of the urban unemployed proletariat.

Are we getting a different sense of goal that recognizes really what you want is not people just producing more and wasting more, spilling more into the local streams and oceans and so on, but people who are living a decent, wholesome life even though they are not consuming or wasting many goods?

Mr. ARMSTRONG. That may well be true but it is also true that most of the leaders of the developing countries think in terms of the kind of goals that we have been used to.

Mr. LONG. I know it. Should we be going along with that view?

Mr. ARMSTRONG. We have to try to sort of, it seems to me, indicate that you don't have to have a basic inconsistency. You can have growth and yet you can have a healthy growth and reasonable growth.

The rate of growth really isn't all that fast in most cases but if they have a choice, as I have heard a god many of them say, between a dirty factory or no factory they will take the dirty factory.

Mr. LONG. Do you think that is right?

Mr. ARMSTRONG. I don't know. They think it is right.

Mr. LONG. They are looking at it differently?

Mr. ARMSTRONG. They are looking at it differently and you have to allow for the fact they are going to do that.

Mr. LONG. A lot of people making those decisions are going to own those factories and own the land and this means wealth and power to them. That is the thing that bothers me so much about our development.

Mr. ARMSTRONG. Your problem is it gets into one of whether you are going to be paternalistic in some ways. We think we know a little better because we have been through some of this and it is kind of hard to get that point across sometimes and have it accepted.

Mr. LONG. Do you think it is paternalism?

Mr. ARMSTRONG. I don't say I think it is. They see it that way.

Mr. LONG. It would be impossible to satisfy them with any kind of development policy. You probably couldn't satisfy them or us. Don't you agree that we ought to try to make sure that our development policies at the very minimum aren't doing any harm?

Mr. ARMSTRONG. I think so; yes.

Mr. LONG. Do you think you could say that about our development policies in the past—that they have not, on net balance, done any harm?

Mr. ARMSTRONG. Well, everybody, of course, has his own definition of "harm," too.

Mr. LONG. I think somebody could come along and write a book proving that on balance probably our whole development policy has done more harm than good, at least for a number of countries.

Mr. ARMSTRONG. There have been articles and such on this.

Mr. LONG. I haven't seen many of them because I have been so busy getting votes and getting elected. I have seen the countries. But here are several statements by respected economists that suggest that our aid may have done more harm than good:

1. "In general, foreign assistance has neither accelerated growth nor helped to foster democratic political regimes. If anything, aid may have retarded development by leading to lower domestic savings, by distorting the composition of investment and thereby raising the capital-output ratio, by frustrating the emergence of an indigenous entrepreneurial class, and by inhibiting institutional reforms."

Source: K. B. Griffin and J. L. Enos (economists, Magdelen College, Oxford), "Foreign Assistance: Objectives and Consequences," "*Economic Development and Cultural Change*," April 1970, pp. 325-26.

2. "Large losses in activities and projects financed by aid have been reported in many poor countries. In fact, they have been a recurrent theme of official report in India and Ceylon. Though it is difficult to assess in each instance exactly what costs have been taken into consideration in these documents, the losses have often been so huge that it is safe to assume that the country would have been better off without the project."

Source: P. T. Bauer (professor at London School of Economics and fellow at Gonville and Gaius College, Cambridge), "*Dissent on Development*," 1971, pp. 99–100.

3. "Much of the aid received by underdeveloped countries, notably India, Indonesia, and Ghana, has been in the form of heavily subsidized loans, but because the use of aid has not served materially to improve the income-earning capacity of these countries they are now saddled with large debts without a commensurate increase in the capacity to serve them."

Source: P. T. Bauer, "*Dissent on Development*," p. 108.

Mr. ARMSTRONG. But you have to recognize, of course, that the condition antecedent was usually stagnation in many places and dependence on a single crop.

One reason for a low level of population growth was the fact that you weren't providing essential health services and your infant mortality was very high, and you get a very high level of infant mortality that will give you a stable population; and on the surface it looks all right, but if you go out and count the number of children's graves in the graveyard it is not that cheerful.

With new health services, in Latin America, you greatly increase the prospects for life on the part of the newly born.

Mr. LONG. Do you think that is good?

Mr. ARMSTRONG. Well, I don't know.

Mr. LONG. You know, nobody likes to see people——

Mr. ARMSTRONG. From a humanistic standpoint you have to say you think it is good, yes.

Mr. LONG. I realize that. But sometimes you have to be hard boiled and certainly our health programs, wouldn't you agree, have been the most successful of all our programs around the world?

Mr. ARMSTRONG. I should think so, yes.

Mr. LONG. And what we have around the world is a tremendous population explosion which can't go on forever.

Mr. ARMSTRONG. If you use your health program to get into some form of population management, then you ought to be on your way.

Mr. HENNESSY. On the other hand, I think if you are providing new jobs for the people, both rurally and in the urban areas, then I think you have some reasonable balance where you are not just surfeiting the——

Mr. LONG. What is the rate of population growth in most of the developing world?

Mr. HENNESSY. I think it varies. Some of them, like Singapore, Taiwan, Korea, brought it down to 1.5 to 2 percent. In Latin America I think it is 3.2 so it is quite high. You have India higher than they would like.

Mr. HENNESSY. I would hate to give my own personal formula for each individual country but I would certainly think, and it depends on the size of the country and national resources—

Mr. LONG. What should we be aiming at worldwide?

Mr. HENNESSY. If the country has a lot of underutilized resources you might want more people rather than less but some of them are overcrowded.

Mr. LONG. We are approaching 4 billion people. I do think we ought to have some philosophy of what kind of population the world can stand if we are making worldwide health programs to keep people surviving and living longer.

You say 1 percent, 1.5 percent, 3 percent.

Mr. HENNESSY. I would be happy with 1, 1.5 percent, but there again you get into national policies and there may be reasons in certain countries that are underpopulated and would have more resources if there were more.

Mr. LONG. I once saw a little piece of elementary mathematics done to the effect that if you assumed that the world population at the time of the birth of Christ would have been 100,000—of course it was much bigger than that— and if it increased 1 percent a year since that time, we would now have a population equal to 4 billion people per square fot of the Earth's surface.

One percent compounded for any length of time is fantastic. It is obvious that somebody has to develop a long-run population policy.

If we are going to go in and save people's lives without any philosophy about what else we can do, then we could be accelerating the population growth rate.

ECONOMIC PERFORMANCE CRITERIA

What economic performance criteria does the World Bank require that member countries meet in order to continue to receive loans?

Mr. REYNOLDS. The most general requirement certainly is a soundly managed overall economy, sound economic policy looking toward resource mobilization, and efficient use of resources. Of course they are underdeveloped countries, and one of the manifestations of their state of underdevelopment is oftentimes their policies aren't as sound as we might like them to be. But within the limits of what is possible for them, they are expected to pursue sound policies. The Bank does everything it can to encourage that.

LAND REFORM

Mr. LONG. Is land reform for tenants and landless agricultural laborers one of those performance criteria?

Mr. REYNOLDS. That is one aspect, yes, where it is a major problem.

Mr. LONG. In your judgment have we been achieving very much land reform?

Mr. Reynolds. It is a difficult area. It is one——

Mr. Long. Isn't it true that there has been very little accomplished in the way of land reform?

Mr. Reynolds. It varies from country to country but certainly there are countries where it is a major problem where little has been accomplished.

Mr. Long. Has really very much been done anywhere?

Mr. Reynolds. I think quite a bit has been accomplished in a number of countries.

Mr. Long. Which ones?

Mr. Reynolds. I can't cite them right off.

Mr. Hennessy. Mexico, Taiwan.

Mr. Long. Do you really think there has been much land reform in Mexico?

Mr. Hennessy. Once again it's a relative concept but I would consider that a success case, Taiwan another one, Iran. Here again, as in our past discussions, this is a very difficult area. In the case where massive land reforms have been carried out I think everyone is worse off.

Mr. Long. Can you find out what percentage of the population of Mexico has been benefited by land reform? I got the impression when I was there it was very tiny.

Mr. Hennessy. Part of the problem has been you have the big holdings and the very little holdings. I think the ejido system, which has been communal, has run into problems where it is owned by the community. You have two or three generations and it is divided into these very small sizes. You have the other side where there are too large holdings and you have economic efficiency.

Mr. Long. You have put your finger on the big conflict where you have to make a choice on this land reform. There isn't any question about it. Every student of land reform have always come up with the finding that land reform causes agricultural productivity to go down: The little plots don't produce as much. Consequently land reform has always been discouraged regarded with a certain amount of dismay and horror, for that reason.

On the other hand, if the kind of question I was developing a little while ago makes any sense, whether we shouldn't be looking for something besides just piling up goods, namely a better life for people, even if they are not producing as much, then shouldn't we be looking at it from that point of view and go for land reform even if it doesn't mean producing as much?

Mr. Hennessy. I think within limits. Clearly we don't want to return them to——

Mr. Long. I want to know, are the multilateral, banks thinking about this, or is this just a couple of words here and there, you weigh it and in the end you say we are going to go ahead with our big plots because it produces more?

Mr. Hennessy. I think the bank has given attention to it. Here again it's not one of those areas you can just block off in black and white and say they should do this or that. We are trying to learn by our experience and by the bank's experience. There have been areas where it has been carried out.

I think here again you are right in saying the criteria may be determinative. You don't want to return them to subsistence farming.

They have to produce enough to feed themselves and some excess so they can improve their lot. I think the problem comes up more where there is a dearth or a lack of additional resources, where they have to divide up what is already there. Many of the countries have virgin lands that have not yet been colonized. I think the banks have carried forward programs to get people into new areas. That certainly to me is more productive, if there is abundant fertile land, than trying to split up what is already producing.

Mr. LONG. Contrary to what I said a little while ago, I have just been informed that recent studies have shown that small farms can be more productive per acre than large farms, in Taiwan, for example, and in Japan.

Mr. HENNESSY. I think Taiwan and Japan are two cases where it has been, but there again there are limits. They haven't gone back to the subsistence level.

Mr. LONG. I agree if you are on a starvation level, then it might be very disastrous to launch a large-scale land reform. India might be a good example. On the other hand, much of Latin America, much of Asia, are not on the edge. They are really fairly well off compared with India, you know, like a whole order of magnitude better off than India.

Jamaica, I believe, which is very poor, would be a whole order of magnitude better off than India would be. In such places, you can experiment. You do have room for maneuvering.

Mr. HENNESSY. I think we should provide more detail of what the Bank has done, because I think——

Mr. LONG. Let's see if we can get that. I would like to at least get them thinking.

[The information follows:]

[From Agriculture Sector Working Paper, June 1972]

LAND POLICY

The pattern of land ownership and the contractual and customary relationships between landlords and tenants can have a considerable influence on production, employment, and income distribution in agriculture. In developing countries, land represents a much higher proportion of total wealth than in developed countries, and inegalitarian patterns of land ownership are a major source of income inequality. Furthermore, the owners of land usually possess political and economic power which can be exercised in ways that harm the interests of the bulk of the rural people. Land reforms aimed at securing a more equal distribution of land have been prosecuted succesfully in a number of countries, though in some cases at the cost of an initial drop in agricultural production. Some land reform measures have been little more than political gestures and have been ineffective, or even counterproductive.

Whether measures designed to break up large holdings—such as land distribution, progressive land taxes, or the imposition of ceilings on the size of individual holdings—will be undertaken depends on what society considers equitable, and on the balance of political forces. However, the need for productive efficiency and employment creation also has to be considered. Although a landholding is not necessarily the same thing as a farm operating unit, the pattern of landownership does affect the way in which land is used, and does so in two main ways.

First, because the amalgamation or subdivision of owned parcels of land to form operating units involves transaction and coordination costs,[1] there is a

[1] These include the cost of negotiating contractual arrangements, each party's uncertainty regarding the competence and good faith of the other, and, in general, all the monetary, physic, and time costs involved in the association of two or more persons in a single enterprise. These costs are the basic source of the disincentives to efficiency which inhere in many rental arrangements and which are discussed in the next paragraph.

tendency for landholdings and farm operating units to coincide. If the economies or diseconomies of scale are strong, operating units will tend to become of optimum size, despite the transaction and coordination costs. But the economies of scale generally are not very strong. It is the pattern of landownership, therefore, that largely determines the size of operating units. Size, in turn, influences the character of farm operations. With small holdings, the agriculture is likely to be more labor intensive, with lower output per man but probably no less output per acre. It will also require more publicly provided credit and extension services, but probably use less purchased inputs.

Second, the incentive to improve the land and use it efficiently depends in part on whether the person who cultivates the land also owns it; and, if not, on the contractual arrangements between the owner and the operator.[2] Ownership and operation will tend to be divorced if the size of the owned parcel of land is very different from the optimum-sized operating unit. (Absentee ownership also implies the separation of operation from ownership.) Under tenancy arrangements, there is frequently little security of tenure, nor are there guarantees that the tenant will be compensated for the improvements he may make on the farm. His incentive to invest in farm improvements is thus blunted. Similarly, the tenant's or manager's incentive to farm efficiently is reduced if he does not share fully in the rewards of efficient operation.

These deficiencies in contractual relationships are usually not simply the result of landlords and tenants being thoughtless, but reflect the fact that there are difficulties and costs involved in devising tenancy contracts that preserve all the incentives. Tenancy reforms which give the tenant greater scope for exercising entrepreneurship usually reduce the landlord's entrepreneurial role correspondingly, so that the gain in efficiency is not clear cut; there may, in fact, be a loss. Tenancy is a device whereby landlord and tenant combine their resources in a common enterprise: there are bound to be conflicts of interest and some blunting of incentives.

Owner-operated farming is often favored because it avoids the need to reconcile the interests of owners and operator through rental and other contractual arrangements. It is also favored because, with the rent component of farm income accruing to the operator, a more egalitarian pattern of income distribution is generally promoted. The inclination to provide land to the largest possible number of small farmers means that the size of the operating unit tends to become as small as is compatible with reasonably efficient operation and the provision of a socially acceptable minimum standard of living for the operators.

More recently, as the implications of demographic changes have become clearer, the principal virtue seen in small-scale family farming is that it can provide employment and, to a lesser extent, can economize on purchased inputs. If small holdings tend to be more social productive than large holdings—in that they produce as great an output per unit area using more of the abundant and less of the scarce resources—the conflict which many have perceived between an equitable distribution of land and efficiency in farming may be largely illusory.

Belief in the existence of this supposed conflict was often bolstered by an exaggerated idea of the economies of scale that could be realized in agriculture. Some Governments therefore favored the establishment of large-scale cooperative or collectively owned farm enterprises. However, the management of such enterprises has often been weak. Current approaches favor retaining owner-operated production units but assisting them through cooperative, collective, or state-owned organizations that can realize economies of scale and exercise bargaining advantages in the provision of off-farm and some specialized on-farm services.

Whatever size of farm it is desired to promote, it is not merely a matter of breaking up large holdings; some farms are so small that they could never support a family, even if modern techniques are used to increase production. Such units can be viable if suitable opportunities exist for off-farm employment, but, where they do not, land reform measures are required to bring farm sizes up to some minimum level.

This can sometimes be accomplished by combining small farms with land that is being redistributed: in Tunisia, for example, land taken over from colons was available for redistribution. But since it is politically difficult to enlarge holdings by dispossessing some small holders (unless they can be induced to leave to take up other jobs), often the best that Governments can do is to try

[2] Communal ownership of land is not discussed in this paragraph. However, it should be noted that in some cases it provides sufficient incentives to cultivators.

to prevent the situation from getting worse. Inheritance laws which prohibit the subdivision of land below a certain size of holding can help in this respect.

Small farmers suffer from a number of disadvantages, of which perhaps the most serious are meager financial resources, restricted access to credit, and the consequent reluctance to adopt new techniques. Land redistribution therefore needs to be accompanied by the extension of credit, marketing and technical advisory services to small farmers. Often these services or functions were previously performed by landlords. If they are not provided, the impact of land reform on production, and possibly also on the welfare of the new small holders, is likely to be adverse.

THE IMPACT OF NEW TECHNOLOGY

New agricultural technology which increases output per unit area is essentially land substituting in character, since it enables a given output to be produced from fewer hectares of land. Its widespread adoption will tend ultimately to diminish the relative importance of agricultural land and the share of agricultural revenue attributable to land. On a global basis, this tendency does exist. But in regions that have been favored by the new technology, land values have risen. For example, the introduction of the new high-yielding varieties has increased the value of wheatland in many parts of Asia

However, in areas where the new technology has not been applied, the value of wheatland will tend to fall, since the overall increase in wheat production will tend to depress wheat prices. The danger therefore is that in regions where the new technology is being adopted, income inequalities may worsen, the tendency being reinforced by the fact that the larger farmers are usually the first to adopt the new techniques. Far from reducing social tensions in rural areas, the spread of the new technology is likely to sharpen them, and lead to greater demand for the implementation of measures, such as land reform, for the redistribution of income and wealth.

Use of the new technology may often be accommodated only with difficulty by existing tenancy arrangements. Although the latter are not without their deficiencies, they are often reasonably well adapted to the conditions of traditional agriculture. But they may need extensive revision if the new technology is to be adopted and its benefits equitably shared. For example, under crop-share tenancy—which, as compared with cash tenancy, or the use of hired labor, serves the purpose of dividing risks between the landlord and the tenant—each party has an incentive to supply too little of the inputs for which he is responsible. In practice, it appears that this tendency is often held in check so that each tends to adhere to customary norms of performance: at any rate, there is little evidence that share-rented farms are operated much less efficiently.

However, new technology, particularly since it involves increased use of purchased inputs, will require a new set of commitments from landlord and tenant, and perhaps also changes in the customary shares into which produce is divided. Until the revisions are made, the incentives to adopt new techniques that depend on the use of purchased inputs may be seriously impaired.

Furthermore, it appears that rather than entering into revised tenancy agreements, landlords in areas favored by the new technology have been tempted to let their tenancy agreements lapse and to farm the land themselves, using hired labor and machinery. Several considerations probably explain this behavior: It may be easier for landowners to introduce new techniques by directly supervising hired workers; being uncertain about the yield increases that can be attained, they may have found it difficult to negotiate revised tenancy agreements; and legal protection of tenants—or the threat of it—may have prevented the negotiation of contracts acceptable to the landlord. Another possible explanation is simply that modern agriculture is intellectually more engaging and financially more rewarding than traditional farming.

There is a good deal of fragmentation of landholdings in some countries, especially in South Asia. Under traditional agriculture and with underemployment of labor, fragmentation probably does little to constrain production, and reduces risks to some extent. The effects of fragmentation are more serious under modern agricultural conditions since it increases the costs of distributing inputs, of appraising credit requests, and of arranging for custom services. It becomes highly inconvenient when labor is in short supply, as now happens in some areas at harvesttime.

The inconvenience of fragmentation is greatest in irrigated areas, since it raises the costs of distributing water (both directly and through the loss of cultivable land to additional canals). Also, labor shorages at harvest time are

more likely to occur in areas served by irrigation. Consolidation of land is difficult to arrange in practice; farmers are usually reluctant to participate voluntarily because they fear that the land they receive may be less valuable than the land they give up.[3]

IMPLEMENTATION OF LAND REFORMS

The historical record shows a tendency for land reforms to be enacted in law but not successfully—or only partially or slowly—implemented in practice. Where the program has been vigorously prosecuted, the results have sometimes been adverse, in that agricultural output has fallen and the condition of those whom it was intended to benefit has not been improved, or has even deteriorated. The record is, in a sense, unfair to land reform in that it has often been implemented in times of great social tension, and against strong opposition, by radical governments. But even in a favorable environment, successful implementation requires a good deal of political courage and administrative finesse.

Land reform is expensive, both in terms of the fiscal cost of compensating the former owners, and of the human and material resources required to administer it properly and to provide services to the newly-created small holders or cooperative enterprises. It also suffers from perverse announcement effects: owners faced with the threat of losing their land—usually compensation is incomplete, so that a degree of expropriation is involved—cease to improve it and allow existing facilities to deteriorate; and laws which promise tenants security of tenure lead landords to dismiss their tenants and replace them by hired laborers and/or machinery. Thus a difficult dilemma arises if the adverse announcement effects are to be minimized: the redistribution of land should be done rapidly, but a piecemeal approach is more in keeping with the limited fiscal and administrative resources of governments.

Attempts to bring about land reforms have sometimes been frustrated by vested interests, and governments may feel they have to proceed cautiously because production might be disrupted in the initial stages. In some cases governments, bowing to the pressure for land reform, but lacking the will to take effective action, have enacted token legislation. However, such political expediency usually worsens the existing situation, as landlords take evasive or defensive actions to the detriment of both production and the employment opportunities of tenants and rural workers.[4]

It is clear that agricultural development cannot do all it might to improve rural life if the distribution of land ownership is highly skewed. Despite the political and administrative difficulties involved, governments should pursue land policies which help disperse the benefits of agricultural progress widely rather than allowing them to go to only a small segment of the population. Steps should at least be taken to tax the higher rental incomes arising from public investments, and to reinvest the proceeds in infrastructure so as to increase the income-earning opportunities of wider strata of the population. If this is not done, rising land values will make it increasingly difficult to redistribute the land later.

Although the Bank's overall influence on these matters is bound to be slight, it can take explicit account, in its appraisal work, of whether the benefits of a project are likely to be widely dispersed or captured by only a few individuals. The burden of financing the compensation paid to owners under land redistribution programs is the responsibility of the governments concerned, but the Bank can assist in financing other programs designed to raise the productivity of those to whom the land is distributed.

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[3] Voluntary participation may be more readily encouraged if consolidation is accompanied by land improvement works, such as irrigation or land leveling within existing irrigation schemes. Since all participants are likely to benefit, each may be less concerned—so the argument runs—as to whether he receives precisely the same share of improved land as he had of the original unimproved land.

[4] A study of the impact of land reform legislation on two Indian villages showed that although laws were framed to improve the position of tenants (by limiting the amount of rent payable, and by giving them greater security of tenure and the right to purchase land) the results left them worse off. Owners were able to evade the legislation by various means, including the replacement of tenants by hired laborers. It is interesting to note that a new tenurial relationship—a form of quasi-tenancy (but not legally classifiable as tenancy)—was devised to meet the situation.

INTEGRATED SMALLHOLDER DEVELOPMENT

Smallholder development frequently takes place within projects for regional rural development, irrigation, and settlement. Sometimes it is possible to assist smallholders through the provision of credit alone. But in most cases—especially in Africa—smallholder development has to be of an integrated nature. In other words, it has to provide for such items as technical advice and marketing facilities (including roads), as well as credit for on-farm development and input purchase. Such integrated smallholder development programs are relatively recent (dating mainly from the early 1960's); and patterns of organization and management are not well established in many countries.

The Bank's lending has, therefore, involved a large degree of innovation. While some trends are beginning to emerge, not enough is known yet about smallholder motivation in different environments to make any firm judgments. It is likely that the period of innovation will continue for some time, and will be increasingly based on the applied economic research sponsored by the Bank and the work of the rural development unit. Existing tenurial arrangements may create substantial difficulties in smallholder development. The Bank has, therefore, found it necessary at times to insist on cadastral surveys, and increased permanency in usufruct and/or tenure rights, before financial support is provided.

Two principal strategies of integrated smallholder development have emerged. The first concentrates attention on a specific cash crop of high potential as a focal point for rural development. An example is the Kenya smallholder tea project which provided credit and extension services for smallholders scattered throughout the tea-growing zones, together with complementary tea-processing factories and access roads. For many cash crops, however, the application of this strategy is limited by market prospects, even if particular projects are successful and the climate and soils are suitable over wide areas.

The second strategy is to concentrate attention on the overall development of a specific geographical area which has a high potential and is of manageable size. The activities supported include production both for subsistence, and for a marketable surplus, and such aspects as soil conservation, local marketing facilities for food surpluses, input supplies, roads, and social services. Recent examples of such a strategy are the Lilongwe and Karonga projects in Malawi, the Wolamo project in Ethiopia, and the Casamance project in Senegal.

The principal danger in this strategy is that too many scarce resources, particularly of trained manpower, may be concentrated on a small area. It may become difficult to apply the strategy on a large scale later because of budgetary and manpower constraints. Thus there is a continuing attempt to determine the minimum package of inputs and services which can make a substantial impact on a large number of widely distributed smallholders farming under varying conditions.

Within both strategies, it is advantageous for small farmers to group together in some way to obtain economies of scale in procuring inputs and marketing their produce. This end has been achieved in a variety of ways in accordance with local traditions and outlook, but no definitive trend has been established. In certain cases, commercial or state-owned estates have formed nuclei for smallholder development, providing smallholders with essential services. In other cases, the service cooperative has been the favored solution. Where cooperatives are unpopular, possibly because of earlier failures, or where they are still in their infancy, semiautonomous state agencies have sometimes been found to work well. One of the keys to success in all these organizational forms is the quality of the management.

LAND SETTLEMENT

The settlement of new lands has been supported by the Bank whenever appropriate opportunities have arisen. However, there are not many parts of the world with large areas of suitable and unexploited land. The settlement of new lands has high priority, therefore, only in some countries.

The trend within settlement projects financed by the Bank has been toward reducing the "public" input and relying more on the settlers' own efforts. Otherwise, in countries where principal initial purpose of settlement is to provide

large numbers of families with at least a subsistence income, public budgetary constraints would severely restrict the number of settlers that could be accommodated. Recent settlement projects (e.g., in Colombia, Papua/New Guinea, and Tanzania) thus concentrate on the provision of low-cost access roads, technical advisory services and credit for onfarm development, and construction of drinking water sources.

ESTATES, SEED PRODUCTION, AND FORESTRY

Some countries continue to seek Bank finance for private and public sector tree crop estates. A start has been made in a small way with the financing of integrated projects covering seed multiplication, processing, and marketing. This field of activity should become important as the benefits of modern agriculture are spread more widely.

Another subsector which has so far received little Bank lending, but which is expected to grow in importance, is forestry (though forest industries have been extensively helped with the industrial context). The demand prospects for forest products are favorable.

Mr. REYNOLDS Kenya is a country where there have been World Bank projects specifically designed to facilitate a shift from large landholding patterns of production to small holder patterns of production.

Mr. LONG. Why weren't they shown to me when I was in Kenya 2 years ago?

Mr. HENNESSY. This year you can ask at the annual meeting of the bank, which is going to be in Kenya.

Mr. LONG. All they showed me was game. I was glad to see the game, although after you have seen an elephant a couple of times you know what an elephant looks like. I was never shown a single AID project that I can recall offhand in the entire 2 or 3 days that I was in Kenya. I saw the Ambassador, had very excellent dinners and all that kind of stuff, but no projects.

Mr. HENNESSY. The annual meeting of the Bank this year will be in Nairobi, in Kenya.

Mr. LONG. That is where I was, as well as upcountry quite a bit.

Mr. HENNESSY. If your time and schedule permits, we will make a formal invitation now that you come along, and we will make sure you do get a chance to look at some of these particular projects. I think there is a small-holder tea-plantation project and I believe Congressman Conte in 1967 saw that in its initial stages. I think there are some real gains here that are worth seeing.

Mr. LONG. How do these plantations operate?

Mr. HENNESSY. The ownership of the plantations themselves? I am not sure whether they are 100 percent cooperatives. These are the former British-owned ones. Now they are Kenyan owned.

Mr. REYNOLDS. Oftentimes I think what happens in land reform is that the mere fact of breaking up the land into new patterns of own-

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[1] These figures, for the most part, are included in the global figures for the credit component of Bank lending mentioned in the subsection on "Agricultural Credit" above.

[2] This move into tropical and semitropical zones has been made practical by the development of new techniques, particularly improved animal health control, use of tropical legumes for pasture improvement and upbreeding of local cattle with improved cattle which are less susceptible to disease and insects.

[3] Beef fattening and milk production have been found to be practical for small holder operation (as opposed to breeding, which usually demands larger herds, especially under marginal rangeland conditions), although milk production by small holders demands an effective extension service and marketing infrastructure.

[4] In view of stiffer sanitary regulations in the main importing countries, increasing amounts of beef exports are in the form of precooked meats and almost all beef exports now have to be bone-out.

ership, by itself can have a detrimental effect on production, if you don't combine it with programs designed to provide credit and needed supplies of one kind or another to the new owners. But taken in conjunction with these ancillary programs, if you will, generally it has a quite positive effect on production.

Mr. ARMSTRONG. A good example of both plantation and smallholder agriculture is Malaysia in rubber. They have gone ahead with a very good scientific replanting program on plantations, but at the same time they have given the same facilities to the small holder, and encouraged him to expand his acreage and have small farms. Almost any size plot in rubber is efficient because of the nature of the product and the processing.

Mr. LONG. When I was in Malaysia a number of years ago I was shown one of those places, but I understand it was owned by the Lee family, I believe. They must own thousands and thousands of acres.

Mr. ARMSTRONG. There are a lot of big owners but there are also an awful lot of small holders.

Mr. LONG. I saw some nice little land reform programs going on in Colombia, but by and large you don't see very much.

I hope our AID and multilateral institutions get the message. We have spent scores of billions of dollars, not very effectively, and as I said before, may have caused more harm than good, well-intentioned as we probably were. I think time is running out for foreign aid so far as the people are concerned. I don't know whether my colleagues would agree with me on that or not.

Rightly or wrongly, what would you think, Ed?

Mr. ROYBAL. It is running out.

Mr. LONG. Would you agree?

Mr. MILLER. I would indeed.

Mr. LONG. You can't explain it to people. It gets imposed from the top and people vote on it because they are urged to, but very few Congressmen agree with it. I guess if you took a secret ballot it would probably lose by about 10 to 1. If that is true, something has got to happen if we are not going to have the whole thing collapse.

If you want to go on with a good thing in the years to come, we have to try to learn to make it more effective.

Mr. ARMSTRONG. The Secretary of State has asked Under Secretary Casey to do some special work on this. A lot of work is going on in the State Department on it. You might find it useful to talk to Secretary Casey sometime. I will report this to him.

Mr. LONG. The only justification foreign aid has ever had from my point of view is improving the lot of the ordinary guy, his income and his education. But it has been justified before Congress on many different grounds that one can't help wondering whether it has any justification at all. You know: "It will help sell American goods." "It is rent for American military bases." "It gets the United States power and influence among the countries of the world," and on, and on, and on. It is like a little boy who comes home late. You ask him where he has been and he tells you. You are inclined to believe it, but then he tells you another reason why he hasn't been home on time. After he gives the third or fourth reason you decide you don't believe any of them.

The committee is adjourned until 1 o'clock.

WEDNESDAY, MAY 30, 1973.

MILITARY ASSISTANCE AND FOREIGN MILITARY CREDIT SALES PROGRAMS

WITNESSES

VICE ADM. RAY PEET, U.S. NAVY, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY, AND DEPUTY ASSISTANT SECRETARY OF DEFENSE (INTERNATIONAL SECURITY AFFAIRS) FOR SECURITY ASSISTANCE

CURTIS W. TARR, UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE

ERICH F. VON MARBOD, COMPTROLLER, DEFENSE SECURITY ASSISTANCE AGENCY

BENJAMIN FORMAN, ASSISTANT GENERAL COUNSEL FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF DEFENSE

DONALD S. FLOYD, SPECIAL ASSISTANT FOR CONGRESSIONAL RELATIONS, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS

COL. ELLWOOD E. JOHNSON, U.S. AIR FORCE, OFFICE OF THE COMPTROLLER, DEFENSE SECURITY ASSISTANCE AGENCY

COL. H. E. GEORGE, JR., U.S. AIR FORCE, OFFICE OF THE SPECIAL ASSISTANT FOR CONGRESSIONAL RELATIONS, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS

MILITARY ASSISTANCE

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	Budget plan (amounts for military assistance actions programed)			Obligations		
	1972 actual	1973 estimate	1974 estimate	1972 actual	1973 estimate	1974 estimate
Program by activities:						
Grant aid operations:						
Reservations for requirements ordered from U.S. military services (22 U.S.C. 1819):						
1. Aircraft	67,646	101,900	165,000	47,050	106,500	154,200
2. Ships	37,067	32,600	47,700	41,518	31,000	45,000
3. Tanks, other vehicles, and weapons	98,920	79,300	123,700	113,064	75,500	116,300
4. Ammunition	95,405	93,300	130,600	77,115	81,700	122,000
5. Missiles	5,630	6,500	13,700	5,260	6,200	12,800
6. Electronic equipment	24,081	42,000	61,900	24,906	39,900	58,100
7. Other	106,404	109,340	126,200	103,239	96,247	115,300
Subtotal	435,153	464,940	668,800	412,152	437,047	623,700
Obligations for requirements other than through reservations:						
8. Offshore procurement	4,919	5,000	5,000	4,720	5,000	5,000
9. Supply operations	62,481	61,460	71,500	61,719	61,460	71,500
10. Training	30,367	29,000	31,100	28,069	29,000	31,100
11. Administrative	16,309	26,100	25,500	15,836	26,100	25,600
12. Other activities	662	2,300	2,600	463	2,300	2,600
Adjustment of prior year obligations				−13,317		
Subtotal	114,738	123,860	135,700	97,490	123,860	135,800
Total obligations/reservations	549,891	588,800	804,500	509,642	560,907	759,500

MILITARY ASSISTANCE—Continued

	Budget plan (amounts for military assistance actions programed)			Obligations		
	1972 actual	1973 estimate	1974 estimate	1972 actual	1973 estimate	1974 estimate
Financing:						
Receipts and reimbursements from:						
Federal sources			−69,500			−69,500
Non-Federal sources	−5,574	−5,500	−5,000	−5,574	−5,500	−5,000
Unobligated balance available, start of year	−5,775	−2,307		−5,775	−2,307	
Reprograming from prior year budget plans	−40,249	−27,893	−45,000			
Unobligated balance available, end of year	2,307			2,307		
Budget authority (appropriation)	500,600	553,100	685,000	500,600	553,100	685,000
Relations of obligations to outlays:						
Obligations incurred, net				504,068	555,407	685,000
Obligated balance, start of year				781,406	722,961	728,668
Obligated balance, end of year				−722,961	−728,668	−835,268
Outlays				562,513	549,700	578,400

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Grant aid operations:			
Reservations:			
Other services	17,144	17,350	30,000
Supplies and materials	153,873	153,500	275,700
Equipment	214,135	266,197	318,000
Total grant aid operations	412,152	437,047	623,700
Obligations for requirements other than through reservations:			
Personnel compensation:			
Permanent positions	12,241	11,986	13,084
Positions other than permanent	68	30	30
Other personnel compensation	115	180	185
Total personnel compensation	12,424	12,196	13,299
Personnel benefits:			
Civilian employees	1,096	1,256	1,371
Military personnel	17	10	15
Benefits for former personnel	66	233	407
Travel and transportation of persons	14,143	11,972	13,162
Transportation of things	33,619	35,722	39,164
Rent, communications and utilities	2,413	2,312	2,578
Printing and reproduction	104	92	90
Other services	41,638	54,095	59,201
Supplies and materials	−6,462	2,406	2,578
Equipment	678	3,566	3,935
Lands and structures	−246		
Total obligations for requirements other than through reservations	97,490	123,860	135,800
Total obligations/reservations	509,642	560,907	759,500
Obligations are distributed as follows:			
Secretary of Defense	−10,534	2,300	2,600
Army	352,897	375,260	482,300
Navy	88,815	96,540	146,500
Air Force	73,498	79,500	120,400
State	4,966	7,370	7,700

PERSONNEL SUMMARY

Total number of permanent positions	1,324	1,147	1,110
Full-time equivalent of other positions	18	5	5
Average paid employment	1,264	1,156	1,105
Average GS grade	8.7	8.9	8.8
Average GS salary	$13,879	$14,244	$14,121
Average salary, positions authorized by 22 U.S.C. 2151	$33,380	$33,679	$34,114
Average grades established by the Secretary of Defense	2.0	2.0	2.0
Average salaries established by the Secretary of Defense	$31,436	$30,454	$31,436
verage salary ungraded positions	$3,124	$3,712	$4,124

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FOREIGN MILITARY CREDIT SALES

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1972 actual	1973 estimate	1974 estimate
Program by activities:			
Credits and guaranties:			
1. Long-term credit agreements	550,000	550,000	760,000
Portion financed privately	−220,500	−200,000	−313,330
Portion financed directly	329,500	350,000	446,670
2. Guaranty of private financing	55,125	50,000	78,330
Total obligations (object class 33.0)	384,625	400,000	525,000
Financing: Unobligated balance lapsing	15,375		
Budget authority (appropriation)	400,000	400,000	525,000
Relation of obligations to outlays:			
Obligations incurred, net	384,625	400,000	525,000
Obligated balance, start of year	274,232	508,057	678,057
Obligated balance, end of year	−508,057	−678,057	−890,057
Adjustments in expired accounts	−3,703		
Outlays	147,097	230,000	313,000

Mr. PASSMAN. The committee will come to order.

We shall continue our examination of the foreign aid and assistance requests for fiscal 1974. We shall start this afternoon on the budget requests for the military assistance military credit roles programs. We have as witnesses Vice Adm. Ray Peet, U.S. Navy, Director, Defense Security Assistance Agency and Deputy Assistant Secretary of Defense (International Security Affairs) for Security Assistance; and other witnesses whose names will be spread upon the record at this point.

Admiral Peet, we welcome you before this subcommittee. I believe it is the first time you have ever appeared officially as the Director of the Military Assistance Program.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Let me say it could be that we are going to have some rather lengthy hearings. There will be a lot of friendly questions asked, and some unfriendly questions. That is the way congressional committees operate. Personally I am going to take a pro position. I reached that conclusion some 5 or 6 years ago, and I stated I would maintain that position of supporting the military program as well as our defense program until we could see some prospects of a lasting peace. In my considered judgment we have made tremendous progress in that direction in the past 4 years in that our President has concluded the Vietnam war, he brought home during his tenure 543,000 troops, and reduced the cost from $29 billion annually down to the neighborhood of $1 billion annually. Whether he is a Republican or Democrat, it is a significant and great accomplishment. I think we are headed directly for a long and lasting peace, but there are just certain areas where we have made tremendous advancements, and I think this is noteworthy for the record.

In Vietnam, beginning under President Eisenhower, later under President Kennedy, under President Johnson, and then President Nixon, all of your admirals, generals, and great leaders, congressional and otherwise, supported the policy in Vietnam. Because of that policy, we invested $141 billion of our resources, 56,000 precious lives and

303,000 casualties. For all these many years these people said this was necessary. It is perfectly obvious to me that if we should today pull the rug out and say there is no more military aid to Vietnam, that investment would be down the drain.

As far as I am concerned the same thing is true in Korea. Beginning with President Truman, and including all the Presidents up to the present one, all of your great generals and admirals of the past, all of your congressional leaders of both branches said this was a proper action in Korea. We made a $35 billion investment in Korea, plus 33,000 lives, and 105,000 casualties. We are realists. We know North Korea is ready to come south any time we withdraw our troops and military assistance. Here is a powerful enemy just to the north with an air force four times that of South Korea. You just don't have to be too smart to know what would happen if we should withdraw our troops, as is advocated by some, and you cut off military assistance.

I want you to know my position. We shall certainly be critical of certain areas when the hearings have started, but when I take a very pro stand on certain areas, I want you to know I do it upon the basis of research in the record which I have just recited.

With that said, Admiral, you state that your fiscal 1974 request for military assistance programs worldwide is $685 million, is that correct?

Mr. VON MARBOD. That is correct.

Mr. PASSMAN. That is $131,900,000 above the continuing appropriations which you are operating under at the present time.

I assume, Admiral, that you have a statement that you would like to make to the committee, in support of your budget request for fiscal 1974.

Admiral PEET. Yes, sir.

GENERAL STATEMENT

Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommitte, thank you for the opportunity to present the military security assistance program for which the administration is seeking fiscal year 1974 appropriations.

I am accompanied this morning by Mr. Erich von Marbod, Comptroller of the Defense Security Assistance Agency and Mr. Ben Forman, Assistant General Counsel of the Department of Defense.

The national security interests of the United States have been well served by the programs of military security assistance since their inception. Had we not provided the military equipment and related training needed by our friends and allies to create and maintain an adequate military posture, we could not now rely on the strength and stability of our world partners. They are an important adjunct of the total national power we can bring to bear in our continuing effort to reduce international tension and advance the cause of lasting peace throughout the world.

The military security assistance program needs greater understanding. One of the factors that can contribute to this understanding is a full and frank statement of the objectives of the program. These objectives can be summarized as follows:

First and foremost, the program supports the U.S. national security interests by strengthening the defense capability of selected friendly

and allied nations to maintain internal security, to defend against external aggression, and to contribute toward regional defense and stability.

Second, the military security assistance program fosters favorable attitudes toward the United States and its policies and objectives and helps influence friendly and allied countries to pursue national objectives compatible with U.S. military strategy and U.S. foreign policies.

Third, the program assists in obtaining and maintaining necessary rights, authorizations and facility arrangements at key locations for U.S. forces and helps to deny them to forces opposed to U.S. interests.

Finally, the military security assistance program serves as an essential instrument of the Nixon doctrine. As such, the program assists to develop, within the capability of selected friendly and allied countries, an appropriate degree of defense self-reliance, thereby reducing dependency upon and cost to the United States, developing partnership, and enhancing negotiations.

To achieve these objectives, the country programs which have been developed for fiscal year 1974 have been prepared with specific planning concepts in mind:

Section 504(b) of the Foreign Assistance Act of 1961, as amended, provides a key concept which is followed during the preparation process. Namely, the military security assistance program is planned, programed, and budgeted in direct competition with U.S. forces programs and other activities of the Department of Defense. This helps to insure that a dollar spent on military assistance to foreign countries is as necessary as a dollar spent for the U.S. Military Establishment.

The relationship of the recipient nation's defense capability to U.S. security interests is also considered.

Consideration is given to the realistic force level of recipients based upon what is needed, what the country can sustain, and what can be provided.

Economic, political, and social conditions within the countries are factors that are considered as is the impact of the military assistance program on these conditions.

Provision of military security assistance is predicated upon recognition by recipient nations that responsibility for their defense is a matter on which they must make the basic decisions and be willing to devote a fair share of their own resources. Recipient nations are expected to use resources effectively and progressively assume greater responsibility for their own defense by a greater and greater contribution of their own resources.

U.S. grant military assistance and credit resources normally are concentrated toward the provision of capital requirements. Recipient countries are expected to assume, as early as possible, responsibility for the bulk of their operating and maintenance costs.

All forms of assistance are considered in the development of the country programs involving military security assistance. These include: grant military assistance (including the utilization, where possible of excess defense articles), foreign military sales for credit and cash, military training programs, security supporting assistance and other U.S. economic assistance, ship transfers under various statutes, and third country military and economic assistance.

We are seeking the committee's favorable consideration of funding for grant military assistance and foreign military sales credit programs

for fiscal year 1974. The total authorization for the grant military assistance program for fiscal year 1974, as proposed, is $771.5 million for which $652 million in NOA is being requested. The total authorization proposed for fiscal year 1974 for foreign military sales credits is $760 million for which $525 million NOA is being requested. In addition, $33 million in NOA is being requested for the international military education and training program.

As in prior years, the major portion of the proposed grant military assistance effort would be directed to East Asia—with $502 million for the Republic of Korea, the Khmer Republic, Indonesia, the Philippines, and Thailand. These five countries in East Asia will account for 65 percent of the total grant assistance program being requested.

To assist U.S. security interests in the Near East, $121 million are being requested as grant assistance for Turkey and Jordan. Other recipients of grant military assistance include Ethiopia and Tunisia at $12.9 million, nine countries in Latin America at $9.5 million, and Spain and Portugal at $3.3 million.

The military assistance program for fiscal year 1974 represents a decrease in the number of nations receiving grant material. Only 20 recipient nations are included, of which 8—Korea, the Philippines, Indonesia, Cambodia, Thailand, Jordan, Turkey, and Ethiopia—will receive 82 percent of the total effective MAP funding being requested.

Before proceeding further I would like to point out that all the regional and country MAP dollar levels which I am providing in my presentation here today are consistent with the data presented to you in our Department of Defense congressional presentation document. Supply operations and other administrative costs related to the delivery of equipment to recipient countries during fiscal year 1974, including that programed from prior years, are included in our general cost line and are not included in the regional and country figures I will present.

The total foreign military sales credit program for fiscal year 1974, as proposed, is $760 million, for which $525 million in NOA is being requested. The bulk of these funds would be allocated to the Near East with $465 million for Israel, Greece, Turkey, Lebanon, and Saudi Arabia. The remainder would be apportioned to Latin America ($150 million for 12 countries), East Asia ($127 million for 5 countries), and Africa ($18 million for 3 countries). Parenthetically I might add at this point that the U.S. Treasury will realize receipts in fiscal year 1974 of principal and interest from prior year credit programs, approximately $250 million.

Foreign military sales credits have assumed major importance as an element of the military security assistance program. These credits not only offer friendly and allied nations a direct source of funds to strengthen their defensive capabilities, but also provide a means of enhancing U.S. exports and improving the U.S. balance-of-payments position. The amounts used for direct credit will be repaid to the U.S. Treasury, with interest, by the governments to which these credits are made available.

In addition to the grant materiel program and the foreign military sales credit program $33 million is being requested for the separate international military education and training program.

Military assistance training and orientation in the United States and at certain overseas locations, offered to the military and military-related civilian personnel of allied and friendly countries, constitute an effective and productive element of the military security assistance program. We believe we should place this important program on a more permanent basis than at present. We are proposing, therefore, a new international military education and training program for fiscal year 1974.

Of the 44 countries proposed for participation in grant training programs, 24 will receive no grant materiel assistance. The $33 million funding request for training will provide for the attendance of over 43,000 foreign military personnel at various courses of instruction offered at facilities operated or sponsored by the Department of Defense.

As noted earlier, eight countries will receive 82 percent of the total MAP funding being requested. The contents of the programs which we have developed for these eight countries will now be covered in some detail.

For Korea we propose to allocate $238.8 million for MAP funding, $25 million for foreign military sales credits and $2.4 million for training. The Republic of Korea is a staunch and loyal ally of the United States. Its importance is based upon its strategic location.

In fiscal year 1971 a modernization plan was developed with the Government of the Republic of Korea to strengthen and modernize its armed forces. Progress in implementing this plan has been delayed by the reduced security assistance funding levels during fiscal year 1972 and 1973. The funds requested for fiscal year 1974 are necessary to continue the Korean force modernization plan and will assist in regaining the momentum lost in fiscal year 1972 and 1973. The funds requested for fiscal year 1974 will assist the Koreans to develop a credible deterrent posture, and will permit progress toward attainment of more defense self-reliance by the Koreans.

The fiscal year 1974 MAP program for the Republic of Korea will provide funding for a squadron of F–5E aircraft, self-propelled artillery, other weapons, and trucks. The program proposed will provide for improvements in its air defense posture, in the protection of its long coastline, and in the firepower and mobility of its ground forces to meet the North Korean threat.

In addition we propose $25 million in foreign military sales credits for South Korea during fiscal year 1974. The Republic of Korea has embarked upon several projects employing its own resources to improve its military capability. These projects include vehicle modernization and the assembly/production of tactical radios, ammunition, and small arms. As appropriate, FMS credits will be utilized to help develop these projects of self-reliance and will provide momentum to continuing Korean force modernization.

The strong and traditional ties of friendship between the Philippines and the United States are recognized in the proposed security assistance program for the Philippines in fiscal year 1974—$19.3 million for MAP grant assistance, $3 million for foreign military sales credits, and $631,000 for training.

Economic growth of the Philippines since its independence in 1946 has not been sufficient to permit the country to meet all of its military requirements. Stability in the Philippines is of particular importance

to the United States. The Philippines needs assistance to modernize its armed forces and constabulary to provide internal security, to protect U.S. bases and facilities, and to contribute to the process of sound nation-building. The urgency of this need has been compounded by recent natural disasters, the recovery from which demands a significant share of available Philippine resources.

The MAP program proposed for the Philippines for fiscal year 1974 will provide an improved air transport capability, additional helicopters, some trucks and small arms, and better communications equipment. To provide the Philippines with the opportunity to exercise more defense self-reliance, depending on the availability of resources, we propose a level of $3 million in FMS credits for the Philippines.

Military security assistance for Indonesia is oriented primarily toward the development of a capability to establish and maintain internal security in this strategically located and important nation. As Indonesia recovers from the chaotic economic effects of the Sukarno regime, it is playing an increasingly important role in the affairs of the region.

For Indonesia we propose a program of $20.8 million for MAP grant assistance and $2 million for training during fiscal year 1974. The program has been carefully prepared to include only the equipment which the armed forces can absorbe and utilize effectively in their internal security and civic action projects and in their role as a stabilizing element in the Indonesian society. Equipment will include additional air transport capability, trucks and some small arms, and communications gear. A relatively high level of operating and maintenance parts and supplies is deliberate to assure that U.S. assistance will keep U.S.-origin equipment in operation.

Indonesia looks primarily to the United States for assistance, though it receives limited help from other countries. Indonesia recently accepted a squadron of F–86 fighter aircraft from Australia. This is the type of regional cooperation and assistance which we have been encouraging. We hope to see more examples of third country assistance, not only here, but elsewhere.

Continuing hostilities require that substantial grant assistance be provided to Cambodia to enable it to establish and maintain forces capable of sustaining its independence. For fiscal year 1974 we are proposing a grant military assistance program of $167.2 million and a training program of $5.8 million.

Because of active hostilities, the content of the program for Cambodia places heavy emphasis on ammunition ($97 million) and other supplies and equipment ($33.4 million). In addition, the program will provide to Cambodia cargo and trainer aircraft, helicopters, several patrol ships and craft, trucks, some howitzers, and small arms. The proposed fiscal year 1974 program for Cambodia is an important instrument in the efforts of the United States to produce an effective cease-fire throughout Southeast Asia.

The United States provides military security assistance to Thailand in the context of common aims and mutual cooperation. Thailand continues to play a vital role in contributing to the attainment of our objectives in Southeast Asia. Over the longer term, an independent and stable Thailand is important to U.S. national security interests because of Thailand's role as an active leader in the promotion of economic, political and security cooperation in Southeast Asia.

Thailand's stability and capacity to play a constructive role in Southeast Asia are being threatened by a Communist inspired and supported insurgency within its borders. The responsibility to counter the insurgency is clearly that of the Thai Government, but it requires continuing U.S. military assistance to provide the modernization and the equipment necessary to mount effective counterinsurgency operations and to improve defense against external threats. U.S. military grant assistance minimizes the adverse impact that military improvement measures would otherwise have on Thai economic and social development.

The proposed fiscal year 1974 program for Thailand will provide $55.8 million MAP grant assistance, $15 million in foreign military sales credits, and $1.5 million for military training. The proposed program puts a premium on providing the Thais with better equipment for countering the insurgency and for increasing the level of such operations. Emphasis is being placed on ammunition, supplies and communications equipment. Equipment to be provided will include helicopters, a few light strike and trainer aircraft for attrition, trucks, and small arms, foreign military sales credits of $15 million are proposed for fiscal year 1974 to initiate Thailand in the use of this procedure to provide for its requirements.

Turning to the Near East, Jordan and Turkey constitute two major programs in the area.

Jordan has weathered many crises, but it continues to face serious challenges from the radical Arab States, and there remains a possibility of the resurgency of guerrilla activity to threaten Jordanian internal security. Our proposed program for Jordan for fiscal year 1974 forms a particularly significant element in our efforts to insure a military balance in the Near East and to produce a settlement of Arab-Israeli differences. The moderate leadership of Jordan contributes to those ends.

The proposed fiscal year 1974 program for Jordan amounts to $35.6 million in MAP grant assistance, plus $468,000 for training. Specifically, the program will provide F–5E aircraft for aid defense, some tanks and small arms, as well as ammunition and communications equipment. The program will help maintain Jordan as a bulwark against disruptive forces in the area.

Turkey has been a determined and cooperative ally of the United States for many years. Geographic position is one important reason why Turkey is an especially valuable country in which to locate NATO and U.S. activities and defense facilities. The continuing involvement of the Soviet Union in the Arab world and the impressive Soviet naval presence in the Mediterranean underscore the strategic importance of Turkey to the United States and to NATO.

Grant military assistance in the amount of $85.5 million is proposed for Turkey in fiscal year 1974. The program will provide armored personnel carriers, several helicopters, tactical communications equipment, tank and anti-tank weapons, war reserve munitions, and a minimum amount of operations and maintenance support. Another $2.5 million will be allocated to Turkey under the international military education and training program. In addition, $75 million in foreign military sales credits are proposed to permit Turkey to continue the financing of its purpose of two squadrons of F–4E aircraft.

Ethiopia assists the United States with certain transit and other rights, and helps promote stability and the cause of moderation throughout most of Africa and in much of the Middle East. This country is now undergoing an increased threat as a result of Soviet supplied war material and the provision of Communist technical aid to Somalia. The proposed grant assistance program for Ethiopia totals $10.5 million in fiscal year 1974, plus $796,000 for training under the international military education and training program. Program content will provide trucks, small arms, ammunition, helicopters, and communications equipment, together with funds for operations and maintenance.

In addition to the eight countries discussed, I would like to comment on our proposed programs in Latin America. Most of the countries in Latin America currently are undertaking modest force modernization programs and desire to acquire their training, equipment, and technology from the United States. If the United States does not respond positively to their requests for assistance, they probably will go to third country sources at a higher cost for them and a loss of influence for us.

Our proposed military security assistance programs in Latin America vary considerably from country to country. They provide for a $9.5 million grant military material program to be allocated to the economically lesser developed countries of the hemisphere and a training program in the amount of $11 million. Our proposal includes a foreign military sales credit program in the amount of $150 million. These programs will help to maintain our security position in the hemisphere, keep Latin America alined with us on security issues, and avoid their political alienation.

Finally, let me report on the overall status of the foreign military sales program. Today, foreign military sales are running at a level about eight times that of the military grant aid authorized by the Foreign Assistance Act. We estimate fiscal year 1973 foreign military sales will approximate $3.8 bilion—$3.28 billion for cash and another $550 million utilizing credit provided in accordance with the provisions of the Foreign Military Sales Act. During fiscal year 1973, the U.S. Treasury is expected to receive repayments amounting to $197 million toward the principal of previous credits, and an estimated $57 million in interest. U.S. commercial sales of defense articles are estimated to be $694 million in fiscal year 1973. During the 10-year period from 1964 through 1973, the total value of foreign military sales was $17.45 billion, excluding commercial sales. Comparing U.S. military grant assistance under the Foreign Assistance Act, the U.S. foreign military sales during this 10-year period, U.S. sales exceeded grant assistance by $10 billion.

In conclusion, Mr. Chairman, each of the forms of security assistance administered by the Department of Defense serves a specific purpose. Every individual country program is composed of what has been determined to be the amount and blend of security assistance which will prove most effective in promoting the national security and foreign policy objectives of the United States with respect to the particular recipient country. You are urged to approve appropriations, for the full amount of the President's request: namely, $525 million in NOA to cover a $760 million credit sales program, $652 million

for grant military assistance to cover a program of $771.5 million, and $33 million in NOA for the international military education and training program. The proposed fiscal year 1974 program which is being presented to this committee is a valuable and highly effective instrument of U.S. security and foreign policy. We request your continued support for this vital program which will permit us to continue to pursue U.S. objectives from a positions of strength.

At this time, Mr. Chairman, I am ready to answer questions which you and members of the committee may have.

BIOGRAPHIES

Mr. PASSMAN. Thank you very much, Admiral, for your statement. I would like to insert in the record at this time the biographical sketch of Vice Adm. Raymond E. Peet, U.S. Navy.

[The information follows:]

VICE ADM. RAYMOND E. PEET, U.S. NAVY

Vice Adm. Raymond Edward Peet was born in Oneonta, N.Y. He was graduated from Binghamton North High School in Binghamton, N.Y., in 1939 and from the U.S. Naval Academy in June 1942 with the class of 1943.

During World War II, he served 2 years as gunnery officer and executive officer aboard the destroyer U.S.S. *Converse* (DD–509) and became a veteran destroyerman. His ship received the Presidential Unit Citation for service in the Solomon Islands with Destroyer Squadron 23, the illustrious "Little Beaver" squadron commanded by Arleigh "31-knot" Burke. He also served on the destroyer U.S.S. *Aulick* (DD–569) in the Okinawa and Philippine Island campaigns.

In 1948, Admiral Peet received a master's degree in electrical engineering from the Massachusetts Institute of Technology where he was a member of the MIT chapter of Sigma Xi National Engineering Honor Society. Subsequently, he served as ordnance electronics officer on the staff of Commander, Operational Test and Evaluation Force, in Norfolk, Va.; plans and progress officer at the Naval Proving Grounds in Dahlgren, Va.; gunnery officer aboard the battleship U.S.S. *New Jersey* (BB–62); commanding officer of the destroyer U.S.S. *Barton* (DD–722) when she won the battle efficiency pennant in 1957; and aide to Chief of Naval Operations, Admiral Arleigh Burke.

Admiral Peet spent a year under instruction with Vice Adm. H. G. Rickover in the Naval Reactor Branch of the Atomic Energy Commission. In March 1961, he was assigned as prospective commanding officer of U.S.S. *Bainbridge* (DLGN–25), the world's first nuclear powered frigate, which he placed in commission on October 6, 1962. In each of the two years during which he served as her first commanding officer, *Bainbridge* was awarded battle efficiency penants.

After graduating from the National War College in Washington, D.C., in 1965, Admiral Peet was assigned as military assistant to the office of the Secretary of Defense. He was selected to flag rank in 1966 and served thereafter as director of a ship acquisition study group in the Office of the Chief of Naval Materiel. In February 1967, after completion of that study, he was ordered to duty as Comamnder Amphibious Group Two and served in that assignment for 16 months. He next assumed command of the Amphibious Training Command, U.S. Atlantic Fleet, on August 9, 1968.

In June 1969, Admiral Peet was ordered to the Office of the Secretary of the Navy as Director, Office of Program Appraisal; and it was from this assignment that he was nominated by the President for promotion to vice admiral and to commander of 1st Fleet, in which capacity he served until June 1972.

Admiral Peet became Director of the Defense Security Assistance Agency in the Office of the Secretary of Defense on June 15, 1972, assuming simultaneously

the attendant duties and functions of Deputy Assistant Secretary of Defense (International Security Affairs) for Security Assistance.

Admiral Peet's awards, in addition to the Presidential Unit Citation, include the Distinguished Service Medal, the Legion of Merit, Bronze Star with Combat "V," and two letters of commendation.

Admiral Peet and his wife, the former Dian Hutchinson of Union, Oreg., have a son, Gary, age 23, who was born in Norfolk, Va. He graduated from Duke University in June 1972, and is presently a postgraduate law student at the College of William and Mary in Williamsburg, Va.

Mr. PASSMAN. I believe you have been before the committee before, have you not?

Mr. VON MARBOD. Not before this committee, sir.

Mr. FORMAN. I have, sir.

Mr. PASSMAN. If you will, and also the Assistant General Counsel, leave biographical sketches so we may place those in the record at this point.

[The information follows:]

ERICH FRITZ VON MARBOD

Erich F. von Marbod was born in Wenatchee, Wash., on January 23, 1929. He received his education at Broadway-Edison High School, Seattle, Wash.; Everett College, Everett, Wash.; the University of Washington, Seattle, Wash.; University of Maryland and Harvard University Graduate School of Business.

He served in the U.S. Army from 1945 to 1947 and his last assignment was as a parachutist with the 11th Airborne Division in the Far East.

In 1952, Mr. von Marbod entered Government service in the field of financial management. For the past 21 years, he has served in financial and other management positions of increasing responsibility with the Department of the Army, Department of the Air Force, and the Office, Secretary of Defense.

In October 1971, Mr. von Marbod was appointed the first Comptroller of the newly established Defense Security Assistance Agency.

Mr. von Marbod is the recipient of the Department of the Army Outstanding Civilian Award, two Department of the Air Force Outstanding Civilian Awards, two Department of the Air Force Meritorious Civilian Service Awards and the Secretary of the Defense Meritorious Civilian Service Medal.

Mr. von Marbod and his wife, the former Lola Vera Olds of Natrona County, Wyo., live in McLean, Va. They have two daughters at home, 15-year-old Teri and 13-year-old Tami.

BENJAMIN FORMAN

Benjamin Forman has been the Assistant General Counsel, International Affairs, Department of Defense since 1959, having previously served as Deputy Assistant General Counsel.

Prior to his service with the Department of Defense, Mr. Forman was a trial attorney in the appellate section, civil division, Department of Justice, and also served for a period of time as a Special Assistant to the Attorney General.

He has degrees from the College of the City of New York, University of Nebraska, and the Harvard Law School.

His bar membership includes the U.S. Supreme Court, New York and Massachusetts. He has served as a member of the executive council of the American Society of International Law and also held other positions in that Society.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will insert certain justification material in the record at this point.

[The justifications follow:]

The security assistance programs discussed in this volume are essential elements of the more measured bilateral relationships we seek throughout the world. In some countries these programs help reduce the need for the presence of United States forces by providing the means to increase indigenous defense capabilities. In other countries, these Security Assistance programs are essential in helping to achieve United States political objectives. In all cases, each program is in itself important to U.S. interests.

This volume provides detailed information on four types of assistance, each of which makes a specific and significant contribution in support of foreign policy and national security objectives of the United States. These are Security Assistance programs administered in accordance with the Foreign Assistance and Foreign Military Sales Acts. These programs are:

* Equipment, supplies and services provided as grant aid under the Military Assistance Program (MAP);
* Credit and credit guarantees for sales of military assistance and training authorized by the Foreign Military Sales (FMS) Act;
* International Military Education and Training Program; and
* Excess Defense Articles.

Military Assistance Program

Since 1950 the Military Assistance Program has provided equipment, supplies and services on a grant basis to meet the urgent and priority needs of allied and friendly countries whose requirements cannot be met in any other way.

In recent years the number of grant military assistance programs has been reduced as the economic capabilities of recipient countries have improved and these countries have assumed an increasing share of their defense requirements. The Military Assistance Program for FY 1974 reflects a still further decrease in the number of recipients and the amount of assistance provided. Grant materiel assistance in FY 1974 is planned for only 20 nations, of which eight--Cambodia, Ethiopia, Indonesia, Jordan, Korea, Philippines, Thailand, and Turkey--will receive 82 percent of the total. Greece ceased being a grant recipient earlier this year and the grant materiel programs for the Republic of China on Taiwan (ROC) and Liberia will terminate on June 30, 1973. Additionally, 11 of the 20 grant recipients may purchase additional equipment under the Foreign Military Sales Act for credit.

The $652 million in new obligational authority requested for the FY 1974 Military Assistance Program is the amount needed to fund items that can only be obtained from new procurement, or for replacement of equipment supplied from Department of Defense stocks not in excess. With few exceptions, all grant military materiel provided to other countries is purchased in the United States from U.S. suppliers. No funds or credits are provided under the Military Assistance Program for local procurement by recipient foreign governments or their representatives.

Foreign Military Sales Credit

The emphasis placed by the Nixon Doctrine on encouraging our Free World partners to become more self-reliant, makes it axiomatic that nations having the economic capability should procure their own military equipment and services for cash or for credit on appropriate terms. Allied and friendly countries which have achieved this capability should be able to obtain appropriate armaments and services from the United States, provided the United States has or can produce a competitive product meeting their needs. To deny such countries access to U.S. military technology and materiel often forces them to procure inferior or more costly arms elsewhere which are neither in their best interests nor those of the United States. Undue restrictions on U.S. Foreign Military Sales credits limit the supply of these credits to less than the demand and thereby lessen the contribution such sales could make to strengthening their security and the United States economy.

Foreign Military Credit Sales and credit guaranties have assumed major importance as a key element of the Security Assistance Program. Not only do they offer allied and friendly nations a direct source of funds

for military equipment and associated training needed to strengthen their defensive capabilities, but they do so on a basis that enhances U.S. exports and improves the U.S. balance of payments position. The $525 million in new obligational authority requested for Foreign Military Sales credit needed to facilitate such sales in FY 1974, will be used both for direct credits and for guarantee of private credits. The amounts used for direct credits will be repaid to the U.S. Treasury with interest by the governments to which it is made available. That portion used for the guaranty reserve remains with the Treasury until such time as a claim for default must be satisified. Developing countries are seldom able to expend substantial sums of cash for the purchase of modern weapons systems, and seldom obtain credits from private sources on reasonable terms. Credits provided or guaranteed by the United States through the FMS program are, therefore, essential if these countries are to purchase the military equipment and services they need, and thus diminish their dependence on grant assistance for support and maintenance of an adequate defense posture.

International Military Education and Training Program

A most effective and productive form of Security Assistance is the training and orientation offered as grant aid to the military and military-related civilian personnel of recipient nations. Because of its far-reaching impact on the security and progress of these nations, it is clearly in the best interests of the United States to make optimum use of this means of advancing important objectives in the international community. Accordingly, a new International Military Education and Training Program is proposed for FY 1974. Of the 44 participating countries, 24 will receive no grant MAP materiel assistance. The $33 million in new obligational authority requested for this new military training and education program in FY 1974 will fund both the attendance of 43,282 foreign military personnel at various courses of instruction offered by training facilities operated or sponsored by the Department of Defense, and orientation visits by senior foreign military officers to U.S. military installations where they will have an opportunity to observe modern management methods.

The training given selected military and military-related civilian personnel from foreign countries serves three important purposes. It teaches them defense-related skills, methods and concepts which they are unable to acquire at home or from third countries; it encourages the development of professionalism and dedication; and, most significantly, it prepares them to multiply the benefit of their training by sharing what they have learned with their countrymen when they return home to positions of increased responsibility and influence. For these reasons, it is generally recognized that, dollar for dollar, that form of grant aid to be provided under the International Military Education and Training Program represents one of the most productive investments which can be made by the United States in the progress and stability of recipient nations.

Excess Defense Articles

In meeting the priority defense requirement of allied and friendly nations, the Department of Defense seeks to make maximum use of defense articles which are excess to the needs of U.S. Armed Forces. No new appropriated funds, except for necessary repair and shipment, are involved in this form of grant military aid. Use of excess defense articles to meet military assistance requirements is governed by two principles. First, this material is used only to meet pre-established requirements fully eligible for provision as grant aid and which, if not supplied from this source, would have to be purchased. Secondly, an item is not programmed from new procurement or from non-excess stocks if there is a reasonable outlook that it can be obtained from excess. To implement these principles, requirements programs submitted from the field are screened carefully against projected availabilities of items from excess and, wherever possible, requirements are programmed from this source. Thus, the programs presented in this document include excess materials to the extent its availability can be foreseen. In addition, dollar values have been included to account for excess items that, although not currently forecast as being available from excess during FY 1974, undoubtedly will become available and match validated but as yet unprogrammed MAP requirements. Thus, effective use of Excess Defense Articles in the Security Assistance program reduces the amount of new obligational authority required to support that program.

SECURITY ASSISTANCE FUNDING

UNCLASSIFIED

FOREIGN MILITARY SALES CREDIT PROGRAM

	FY 1972	FY 1973 as requested of Congress	FY 1973 as of January 23,1973	Proposed FY 1974
CREDIT PROGRAM	550.0	629.0	550.0	760.0
PRIVATE FINANCING	-220.5	-136.0	-200.0	-313.3
DOD FINANCED	329.5	493.0	350.0	446.7
GUARANTY OF PRIVATE FINANCING	55.1	34.0	50.0	78.3
UNOBLIGATED	15.4	-	-	-
APPROPRIATION (NOA)	400.0	527.0	400.0	525.0

MILITARY ASSISTANCE PROGRAM

	FY 1972	FY 1973 as requested of Congress	FY 1973 as of January 23,1973	Proposed FY 1974
MILITARY ASSISTANCE PROGRAM	549.9	819.7	588.8	771.5
REAPPROPRIATION	-5.8	-5.0	-2.3	-5.0
RECOUPMENTS	-40.2	-30.0	-27.9	-40.0
REIMBURSEMENTS	-5.6	-4.7	-5.5	-5.0
TRANSFER FROM DOD	-	-	-	-69.5
UNOBLIGATED	2.3	-	-	-
APPROPRIATION (NOA)	500.6	780.0	553.1	652.0

INTERNATIONAL MILITARY EDUCATION & TRAINING PROGRAM

	FY 1972	FY 1973 as requested of Congress	FY 1973 as of January 23,1973	Proposed FY 1974
TRAINING PROGRAM	(Training was previously included in the Military Assistance Program.)			33.0
APPROPRIATION (NOA)				33.0

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MILITARY ASSISTANCE PROGRAM

(Dollars in Thousands)

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COUNTRIES	FY 1972	Estimated FY 1973	Proposed FY 1974
EAST ASIA & PACIFIC			
Cambodia	179,984	133,275	167,194
ROC	10,956	2,650	-
Indonesia	18,001	16,975	20,826
Korea	152,476	118,875	238,789
Malaysia	139	180	-
Philippines	14,044	15,675	19,269
Thailand	- a/	35,875	55,762
Regional Costs	101	41,467	28,300
Regional Total	375,701	364,972	530,140
NEAR EAST & SOUTH ASIA			
Afghanistan	243	215	-
Greece	9,884	1,650	-
India	31	143	-
Iran	934	-	-
Jordan	37,990	32,750	35,632
Lebanon	204	230	-
Nepal	24	38	-
Pakistan	96	285	-
Saudi Arabia	474	231	-
Sri Lanka (Ceylon)	-	55	-
Turkey	60,731	58,450	85,501
Regional Costs	19	99	-
Regional Total	110,630	94,146	121,133
EUROPE			
Austria	11	18	-
Finland	11	30	-
Portugal	1,015	900	323
Spain	11,191	9,200	3,026
Regional Costs	129	123	-
Regional Total	12,357	10,271	3,349

COUNTRIES	FY 1972	Estimated FY 1973	Proposed FY 1974
AFRICA			
Ethiopia	10,948	8,500	10,454
Ghana	40	55	-
Liberia	348	200	-
Mali	44	50	-
Morocco	875	910	-
Nigeria	114	-	-
Senegal	1	25	-
Tunisia	1,791	1,800	2,476
Zaire	442	288	-
Regional Costs	33	93	-
Regional Total	14,636	11,921	12,930
LATIN AMERICA			
Argentina	759	550	-
Bolivia	3,688	3,850	3,996
Brazil	750	820	-
Chile	886	950	-
Colombia	616	778	-
Dominican Republic	910	606	796
El Salvador	264	500	400
Guatemala	1,592	800	1,080
Honduras	538	534	400
Mexico	112	87	-
Nicaragua	813	871	1,023
Panama	508	476	230
Paraguay	769	243	550
Peru	955	820	-
Uruguay	845	745	1,000
Venezuela	766	870	-
Regional Costs	276	2,900	525
Regional Total	15,047	16,400	10,000
General Costs	21,521	91,090	93,948
WORLDWIDE TOTAL (TOA)	549,892	588,800	771,500

a/ Included under MASF program in FY 1972.

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COUNTRIES	FY 1972	Estimated FY 1973	Proposed FY 1974
EAST ASIA & PACIFIC			
ROC	46,000	45,200	65,000
Korea	17,000	24,200	25,000
Malaysia	8,550	10,000	19,000
Philippines	-	-	3,000
Thailand	-	-	15,000
Regional Total	71,550	79,400	127,000
NEAR EAST & SOUTH ASIA			
Greece	60,000	58,000	65,000
Israel	300,000	307,500	300,000
Jordan	10,000	-	-
Lebanon	10,000	10,000	5,000
Saudi Arabia	-	-	20,000
Turkey	15,000	20,000	75,000
Regional Total	395,000	395,500	465,000
AFRICA			
Liberia	2,000	-	-
Mali	500	-	-

COUNTRIES	FY 1972	Estimated FY 1973	Proposed FY 1974
AFRICA (CONT'D)			
Morocco	15,000	9,800	12,000
Tunisia	2,200	-	2,500
Zaire	2,000	6,300	3,500
Regional Total	21,700	16,100	18,000
LATIN AMERICA			
Argentina	15,000	11,500	22,500
Bolivia	-	-	4,000
Brazil	20,000	15,000	56,000
Chile	10,000	12,400	10,000
Colombia	7,250	10,000	15,000
El Salvador	-	-	500
Guatemala	-	2,600	2,000
Honduras	-	-	500
Mexico	-	-	2,500
Peru	-	-	20,000
Uruguay	2,000	-	2,000
Venezuela	7,500	7,500	15,000
Regional Total	61,750	59,000	150,000
WORLDWIDE TOTAL (TOA)	550,000	550,000	760,000

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TOTAL TRAINING PROGRAM (Dollars in Thousands)			COUNTRY BY REGION	FOREIGN MILITARY TRAINEES								
				UNITED STATES			OVERSEAS			TOTAL		
FY 1972	Estimated FY 1973	Proposed FY 1974		FY 1972	Estimated FY 1973	Proposed FY 1974	FY 1972	Estimated FY 1973	Proposed FY 1974	FY 1972	Estimated FY 1973	Proposed FY 1974
			EAST ASIA & PACIFIC									
1,868	4,715	5,806	Cambodia	55	137	57	33,910	36,441	37,388	33,965	36,578	37,445
1,016	551	500	ROC	159	153	112	106	31	35	265	184	147
2,239	2,275	1,974	Indonesia	232	199	152	95	4	-	327	203	152
4,559	1,664	2,411	Korea	320	383	375	170	145	147	490	528	522
139	180	200	Malaysia	27	36	44	2	-	-	29	36	44
1,078	992	631	Philippines	228	174	108	225	226	184	453	400	292
-	1,812	1,450	Thailand	-	382	212	-	176	2	-	558	214
101	267	300	Regional Costs	-	-	-	-	-	-	-	-	-
11,000	12,456	13,272	Regional Total	1,121	1,464	1,060	34,508	37,023	37,756	35,529	38,487	38,816
			NEAR EAST & SOUTH ASIA									
243	215	215	Afghanistan	14	13	9	-	-	-	14	13	9
877	859	-	Greece	193	228	-	49	21	-	242	249	-
31	143	200	India	10	16	23	-	-	-	10	16	23
934	-	-	Iran	124	-	-	66	-	-	190	-	-
539	618	468	Jordan	144	128	112	15	5	-	159	133	112
204	230	150	Lebanon	32	33	36	-	-	-	32	33	36
24	38	30	Nepal	5	6	7	-	-	-	5	6	7
96	285	243	Pakistan	23	78	52	-	-	-	23	78	52
474	231	200	Saudi Arabia	32	36	51	-	-	-	32	36	51
-	55	50	Sri Lanka (Ceylon)	-	15	5	-	-	-	-	15	5
2,114	1,733	2,499	Turkey	156	218	171	66	22	10	222	240	181
19	99	50	Regional Costs	-	-	-	-	-	-	-	-	-
5,555	4,506	4,105	Regional Total	733	771	466	196	48	10	929	819	476
			EUROPE									
11	18	30	Austria	4	8	8	-	-	-	4	8	8
11	30	20	Finland	3	4	3	-	-	-	3	4	3
328	458	477	Portugal	32	42	38	47	52	49	79	94	87
1,118	973	374	Spain	384	408	315	28	27	28	412	435	343
49	23	50	Regional Costs	-	-	-	-	-	-	-	-	-
1,617	1,502	951	Regional Total	423	462	364	75	79	77	498	541	441

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TOTAL TRAINING PROGRAM (Dollars in Thousands)			COUNTRY BY REGION	FOREIGN MILITARY TRAINEES								
				UNITED STATES			OVERSEAS			TOTAL		
FY 1972	Estimated FY 1973	Proposed FY 1974		FY 1972	Estimated FY 1973	Proposed FY 1974	FY 1972	Estimated FY 1973	Proposed FY 1974	FY 1972	Estimated FY 1973	Proposed FY 1974
			AFRICA									
1,270	764	796	Ethiopia	155	162	132	5	6	2	160	168	134
40	55	50	Ghana	9	13	11	-	-	-	9	13	11
261	117	100	Liberia	36	32	21	-	2	2	36	34	23
44	50	50	Mali	2	5	-	-	-	-	2	5	-
875	910	1,000	Morocco	106	46	108	-	-	-	106	46	108
114	-	-	Nigeria	34	-	-	-	-	-	34	-	-
1	25	20	Senegal	-	3	-	-	-	-	-	3	-
339	349	324	Tunisia	59	55	32	6	16	2	65	71	34
442	288	400	Zaire	40	38	45	10	-	-	50	38	45
33	93	80	Regional Costs	-	-	-	-	-	-	-	-	-
3,419	2,651	2,820	Regional Total	441	354	349	21	24	6	462	378	355
			LATIN AMERICA									
757	550	650	Argentina	36	116	113	305	132	61	341	248	174
618	814	454	Bolivia	11	30	50	216	333	101	227	363	151
750	820	800	Brazil	279	306	303	37	26	4	316	332	307
886	950	1,000	Chile	44	56	76	268	324	164	312	380	240
616	778	800	Colombia	31	73	65	185	221	203	216	294	268
566	573	534	Dominican Republic	24	44	52	188	169	152	212	213	204
264	500	535	El Salvador	7	13	18	85	110	136	92	123	154
276	502	520	Guatemala	16	25	74	94	121	146	110	146	220
538	534	535	Honduras	16	46	53	182	128	77	198	174	130
112	87	140	Mexico	16	18	27	21	21	25	37	39	52
496	807	437	Nicaragua	29	119	97	170	176	121	199	295	218
260	237	250	Panama	8	8	11	149	220	127	157	228	138
428	40	500	Paraguay	44	5	50	74	7	77	118	12	127
955	820	900	Peru	157	103	113	324	259	234	481	362	347
401	477	400	Uruguay	48	106	41	92	137	135	140	243	176
761	870	1,000	Venezuela	76	120	82	164	158	206	242	278	288
276	2,900	1,210	Regional Costs	-	-	-	-	-	-	-	-	-
8,960	12,259	10,665	Regional Total	844	1,188	1,225	2,554	2,542	1,969	3,398	3,730	3,194
3,501	1,265	1,187	General Costs	-	-	-	-	-	-	-	-	-
33,952	34,639	33,000	WORLDWIDE TRAINING	3,462	4,239	3,464	37,354	39,716	39,818	40,816	43,955	43,282

NOTE: FY 1972 and FY 1973 were funded in the Military Assistance Program. FY 1974 is proposed for the International Military Education and Training Program.

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EXCESS DEFENSE ARTICLES

(Dollars in thousands at value specified in Section 8(c) of P.L. 91-672)

UNCLASSIFIED

COUNTRIES	Actual FY 1972	Estimated FY 1973	Proposed FY 1974
East Asia & Pacific			
Cambodia	4,901	6,400	7,000
ROC	26,863	29,900	-
Indonesia	1,295	3,200	7,000
Korea	14,019	19,000	43,000
Laos	2,003	700	3,000
Philippines	654	1,400	7,000
Thailand	3,878	7,000	8,000
Vietnam	-	50,800	35,000
Regional Total	53,613	118,400	110,000
Near East & South Asia			
Greece	9,387	16,400	-
Jordan	1,319	3,500	15,000
Turkey	35,100	36,400	50,000
Regional Total	45,805	56,300	65,000
Europe			
Portugal	11	350	-
Spain	4,595	2,000	-
Regional Costs	2	-	-
Regional Total	4,609	2,350	-

COUNTRIES	Actual FY 1972	Estimated FY 1973	Proposed FY 1974
Africa			
Ethiopia	286	1,400	1,000
Liberia	1	100	-
Tunisia	77	600	1,000
Regional Total	364	2,100	2,000
Latin America			
Argentina	47	-	-
Bolivia	1,053	1,100	700
Dominican Republic	71	350	300
El Salvador	-	-	300
Guatemala	239	750	300
Honduras	-	-	300
Nicaragua	22	800	1,500
Panama	47	200	300
Paraguay	85	450	1,300
Uruguay	1,364	1,200	3,000
Regional Total	2,927	4,850	8,000
Other Government Agencies	-	1,000	-
WORLDWIDE TOTAL	107,318	185,000	185,000

NOTE: Totals may not add due to rounding.

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GENERAL COSTS
FY 1974 MILITARY ASSISTANCE PROGRAM

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(Dollars in Thousands)

	FY 1972	FY 1973	FY 1974
ADMINISTRATIVE EXPENSES	24,691*	26,100	22,871
Reimbursement to State**	(4,831)	(4,400)	(4,400)
INSPECTOR GENERAL, FOREIGN ASSISTANCE	175	175	175
SUPPLY OPERATIONS	882	61,460	69,200
O&M OF MAP INSTALLATIONS	-	600	600
STORAGE AND MAINTENANCE OF MAP MATERIEL	874	1,490	1,102
OTHER TRAINING COSTS	3,501	1,265	-
TOTAL	30,123	91,090	93,948

* Includes $8,602 thousand former MAAG and Command Training costs which through FY 1972 was distributed in country program.
** Non-additive. Included in Administrative Expenses.

Administrative Expenses - Funds cover the cost of administration of the Military Assistance Program, including program planning and development and management at the seat of government, at major field command headquarters and at the MAAG level. This activity includes reimbursement to the State Department.

Reimbursement to State - Funds in this category provide reimbursement to the State Department for administrative support of MAAG personnel, including local hire, maintenance of vehicles, transportation and rents.

Inspector General, Foreign Assistance - These funds reimburse the State Department for the Department of Defense share of this office.

Supply Operations - Packing, handling, crating, port loading and inland water and air transportation costs associated with deliveries of grant aid materiel and excess defense articles (EDA) whether from prior year undelivered balances or from current year's programs are included in this category. In FY 1973, a change in accounting treatment was directed which removed supply operations costs from country programs and characterized all such costs as General Costs. This change stemmed from an audit recommendation which concluded that efforts to distribute these costs to country programs distorted program levels and their presentation.

O&M of MAP Installations - These funds provide for the cost of operating and maintaining family housing units allocated to MAP personnel in Korea. Prior to FY 1973, these costs were a part of the Korean program. In FY 1973, a change in accounting treatment was directed which removed these housing costs from the country program and categorized them (although peculiar to Korea) as a general cost.

Storage and Maintenance of MAP Materiel - Due to unforeseen circumstances such as a decision to halt deliveries to a particular country, MAP-owned materiel must occasionally be held for brief periods of time pending final disposition. The cost of storing and maintaining such materiel in a ready-to-issue condition cannot, under these circumstances, properly be charged to an individual country program.

Other Training Costs - Prior to FY 1974, these funds provided for those training costs of a broad nature which cannot be determined on a country or regional basis. They include publication of training material, the informational program, limited official representation expenses, training of U.S. personnel for MAP assignments and English language training overhead costs, all of which are included in the FY 1974 International Military Education and Training Program.

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Funds for administering the Military Assistance Program derive primarily from two sources. They are:

1. Military Assistance Appropriation

The Military Assistance Appropriation pays (1) pay and allowance of U.S. civilian and local indigenous personnel; (2) change of station travel for U.S. civilian personnel and dependents; (3) temporary duty travel for both civilian and military personnel; (4) rents, communications, and utilities at the MAAG level; (5) printing and reproduction; (6) supplies and materials; (7) vehicles and other equipment required in performance of duties; (8) other contractual services; (9) fifty per cent of MAAG aircraft support costs; and (10) reimbursement to State Department for those materials and services provided by the U.S. Embassies on a common service basis.

2. Military Department Appropriations

These appropriations pay those costs for military personnel which would be incurred under any circumstances and are not peculiar to military assistance activities. These costs include (1) pay and allowances; (2) travel expenses incident to change of station; (3) operation of welfare and recreational facilities; and (4) medical care. In addition, these appropriations pay fifty per cent of MAAG aircraft support costs and the cost of dependent schooling for both civilian and military personnel.

The Role and Strength of MAAGs and Missions Abroad

Department of Defense Military Assistance Advisory Groups in foreign countries, commonly referred to as MAAGs, are engaged in the planning and implementation of coherent, balanced Security Assistance country programs which make maximum contribution to U.S. security objectives, and at the same time, move the friendly country progressively toward achievement of self-sufficiency in its own security. They are the key elements in the system through which military assistance and foreign military sales requirements are identified and the resulting grant aid programs and sales arrangements are developed and implemented. These groups in many cases also perform important functions related to transfer of material to the foreign countries, training of foreign military personnel and advising the foreign military forces in a wide variety of functions related to defense. These groups are the primary means by which the Secretary of Defense carries out responsibilities assigned him under the Foreign Assistance and Foreign Military Sales Acts.

The Department of Defense is dedicated to the principle of maintaining a minimum military presence in foreign countries that is consistent with the basic purposes and mission of the MAAGs. Thus, the need for MAAGs, their size, and the types of personnel assigned are kept under constant review within the Department of Defense. As the situation in a particular foreign country changes, all of these elements of the MAAG's structure are adjusted so that the objectives of minimum presence and maximum efficiency are in balance.

During the period 1961-1971, the total strength of MAAGs worldwide was reduced over 75 per cent. While these reductions have occurred, the total value of program operations has generally remained steady or increased. In some countries where circumstances permitted, MAAG functions were consolidated with other U.S. agencies in-country to achieve additional savings in personnel and costs. There have been, of course, some instances in the last few years, where, in order to support U.S. national policy, it was necessary to increase MAAG strength or to establish new groups; examples of this are in Cambodia and Indonesia. This process of constant surveillance and new initiatives to achieve greater efficiency at the lowest possible level will continue.

Pursuant to Section 512 of the Foreign Assistance Act of 1971, and in continuation of established DOD practices of efficient manpower management, a minimum of 15% reduction of U.S. military personnel assigned MAAGs worldwide was directed. Reductions were effected by 30 September 1972.

AUTHORIZED DOD SECURITY ASSISTANCE PERSONNEL STRENGTHS

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Unified Commands and Overseas Activities	FY 1972			FY 1973			FY 1974 (Estimated)		
	Military	Civilian	Locals	Military	Civilian	Locals	Military	Civilian	Locals
Departmental and Field (U.S.)									
Departmental	89	366	-	87	366	-	87	366	-
Field, U.S.	10	16	-	12	16	-	12	16	-
Total Departmental and Field	99	382	-	99	382	-	99	382	-
East Asia and Pacific									
Commander-in-Chief, Pacific	60	16	-	64	27	-	64	27	-
U.S. Army, Pacific	-	4	-	-	4	-	-	4	-
Cambodia	112	1	-	84	-	4	84	-	5
ROC	190	26	26	166	27	25	166	25	27
Indonesia	45	4	20	45	4	20	45	4	20
Japan	7	5	6	7	5	6	7	5	6
Korea	645	68	272	413	60	119	398	61	128
Philippines	50	8	6	49	9	6	49	9	6
Thailand 1/	323	2	3	257	2	3	227	2	3
Regional Total	1,432	134	333	1,085	138	183	1,040	137	195
Near East and South Asia									
Commander-in-Chief, MEAFSA	17	7	-	-	-	-	-	-	-
Greece	59	9	37	54	9	34	54	9	34
India	8	1	7	8	1	7	8	1	7
Iran	250	22	153	192	16	40	192	16	40
Jordan	14	-	3	5	1	3	8	1	3
Pakistan	10	-	8	10	-	8	10	-	8
Saudi Arabia	137	-	4	118	-	6	125	-	6
Turkey	156	25	101	145	27	87	145	27	87
Regional Total	651	64	313	532	54	185	542	54	185
Europe									
Commander-in-Chief, Europe	40	22	-	39	20	-	39	20	-
U.S. Air Force	1	2	-	-	1	-	-	1	-
U.S. Army	-	1	-	-	1	-	-	1	-
Austria	2	-	-	2	-	-	2	-	-
Bellux	7	1	6	7	1	6	7	1	6
Denmark	7	1	6	7	1	6	7	1	6
France	7	1	7	7	1	7	7	1	7
Germany	27	6	9	26	7	9	26	7	9
Italy	13	2	3	11	2	3	11	2	3
Netherlands	8	-	6	8	-	6	8	-	6

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Unified Commands and Overseas Activities	FY 1972			FY 1973			FY 1974 (Estimated)		
	Military	Civilian	Locals	Military	Civilian	Locals	Military	Civilian	Locals
Norway	6	1	5	6	1	5	6	1	5
Portugal	11	3	7	11	3	7	11	3	7
Spain	40	15	21	38	15	19	38	16	19
Regional Total	169	55	70	162	53	68	162	53	68
Africa									
Ethiopia	97	6	34	85	5	34	85	5	34
Liberia	17	-	5	16	-	5	16	-	5
Libya	5	-	1	-	-	-	-	-	-
Morocco	31	2	7	22	3	6	22	3	6
Nigeria	2	-	1	2	1	1	2	1	1
Tunisia	23	-	3	14	1	3	14	1	3
Zaire	38	-	6	21	-	6	21	-	6
Regional Total	213	8	57	160	10	55	160	10	55
Latin America									
Commander-In-Chief, South	23	6	-	23	6	-	23	6	-
Argentina	28	1	7	28	1	7	28	1	7
Bolivia	28	2	8	28	2	8	28	2	8
Brazil	40	6	26	40	6	26	40	6	26
Chile	14	-	4	14	-	4	14	-	4
Colombia	24	1	5	24	1	6	24	1	6
Costa Rica	4	-	1	4	-	1	4	-	1
Dominican Republic	13	-	3	13	-	3	13	-	3
El Salvador	10	-	3	10	-	3	10	-	3
Guatemala	24	-	5	24	-	5	24	-	5
Honduras	10	-	3	10	-	3	10	-	3
Nicaragua	13	-	2	13	-	2	13	-	2
Panama	9	1	1	9	1	1	9	1	1
Paraguay	16	-	3	16	-	3	16	-	3
Peru	7	-	3	7	-	3	7	-	3
Uruguay	13	-	5	13	-	5	13	-	5
Venezuela	37	1	4	37	1	4	37	1	4
Regional Total	313	18	83	313	18	84	313	18	84
Grand Total - U.S. and Overseas	2,877	661	856	2,351	655	575	2,316	654	587

1/ Thailand is included under MASF Program in FY 1972.

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FY 1974 DEPARTMENT OF DEFENSE FUNDED ASSISTANCE PROGRAM

(Data Submitted Pursuant to Sec 634(h) of the FAA)

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In accordance with PL 89-374, March 25, 1966, funding support of South Vietnam and other Free World forces in Vietnam was transferred to the regular defense budget. PL 90-96, September 29, 1967, transferred funding of assistance to Laos and Thailand to the regular defense budget. The Foreign Assistance Act of 1971 (PL 92-226) required that funding of assistance to Thailand be returned to the Military Assistance Program effective 1 July 1972. The data below represent the level of new obligational authority provided in the DOD budget

(Dollars in Millions)

	FY 1972	FY 1973	FY 1974
Korea	167.9	123.8	-
Laos	213.3	353.5	311.2
Thailand	43.4	-	-
Vietnam	2,159.5	2,257.7	1,559.6
Total	2,584.1	2,735.0	1,870.8

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MILITARY ASSISTANCE APPROPRIATIONS FY 1950–1973

(Dollars in Billions)

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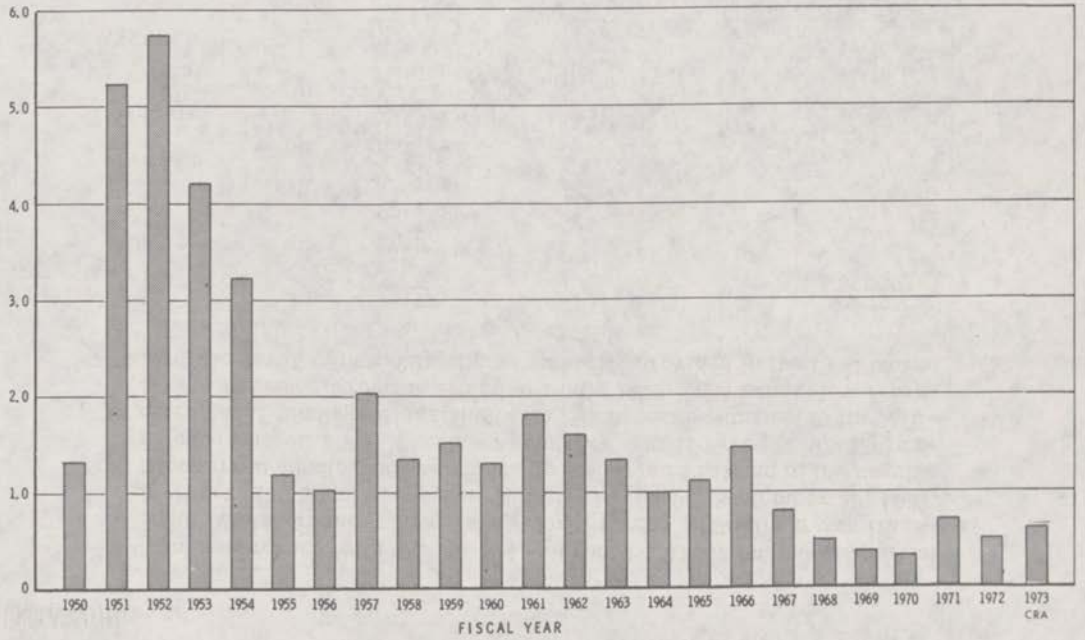

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LEGISLATIVE HISTORY OF AUTHORIZATIONS AND APPROPRIATIONS

(Dollars in Thousands)

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MILITARY ASSISTANCE PROGRAM			
Fiscal Year	Executive Branch Request	Authorized	Appropriated
1950	$1,400.0	$1,314.0	$1,314.0
1951	5,222.5	5,222.5	5,222.0
1952	8,307.0	5,987.6	5,744.0
1953	5,425.0	4,599.4	4,219.6
1954	4,274.5	2,661.5	3,230.0
1955	1,778.3	1,591.0	1,192.7
1956	1,595.0	1,450.2	1,022.2
1957	2,925.0	2,225.0	2,017.5
1958	1,900.0	1,600.0	1,340.0
1959	1,800.0	1,609.0	1,575.0
1960	1,690.0	1,400.0	1,300.0
1961	2,000.0	a/	1,800.0
1962	1,885.0	1,700.0	1,600.0
1963	b/	1,700.0	1,329.0
1964	1,405.0	1,000.0	1,000.0
1965	1,055.0	1,055.0	1,130.0 c/
1966	1,170.0	1,170.0	1,470.0 c/
1967	917.0	675.0	787.0
1968	820.1 d/	510.0	500.0
1969	420.0	375.0	375.0
1970	425.0	350.0	350.0
1971	890.0	690.0	690.0
1972	705.0	500.0	500.0
1973	760.0	553.1 e/	553.1 e/

FOREIGN MILITARY SALES					
Fiscal Year	Executive Request		Authorized		Appropriated
	NOA	Ceiling	NOA	Ceiling	
1968	$120.0	$296.0	$296.0 g/	$296.0	$296.0
1970	275.0	350.0	250.0	340.0	70.0 f/
1971	772.5	805.0 h/	250.0	840.0 g/	700.0 h/
1972	310.0	582.0	400.0	550.0	400.0
1973	527.0	629.0	400.0 h/	550.0 h/	400.0 e/

FOREIGN MILITARY SALES LEGISLATION INCLUDED WITH MILITARY ASSISTANCE PROGRAM PRIOR TO FY 1968

a/ The Mutual Security Act of 1959, PL 86-108 approved July 24, 1959, states "There is hereby authorized to be appropriated to the President for the fiscal years 1961 and 1962 such sums as may be necessary from time to time to carry out the purpose of this chapter, which sums shall remain available until expended."
b/ Foreign Assistance Act of 1961 authorized $1,700.0 million, no executive branch request for authorization required.
c/ A total of $375.0 million appropriated under PL 89-374 dated March 24, 1966 for liquidation of obligations and/or reservations incurred pursuant to authority in Section 510 of the FAA of 1961, as amended during FY 1965 ($75.0 million) and FY 1966 ($300.0 million).
d/ Includes $24.1 million for U.S. support of International Military Headquarters added to the original request of $596.0 due to Congressional action.
e/ The additional $176 million authorized over the Executive Branch request was in lieu of revolving fund authorization.
f/ By Joint Resolution making continuing appropriations for FY 1970.
g/ Includes $500 million for Israel authorized by PL 91-441 and appropriated by PL 91-665.
h/ CAA limitation.

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FY 1974 MAP BY COST CATEGORIES

(Dollars in Thousands)

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	TOTAL PROGRAM		OPERATING a/		INVESTMENT b/	
	Dollars	Per Cent	Dollars	Per Cent	Dollars	Per Cent
East Asia and Pacific						
Cambodia	167,194	100%	131,845	79%	35,349	21%
Indonesia	20,826	100%	8,427	40%	12,399	60%
Korea	238,789	100%	47,563	20%	191,226	80%
Philippines	19,269	100%	4,361	23%	14,908	77%
Thailand	55,762	100%	27,288	49%	28,474	51%
Regional Costs	28,300	100%	-	-	28,300	100%
Regional Total	530,140	100%	219,484	41%	310,656	59%
Near East and South Asia						
Jordan	35,632	100%	2,100	6%	33,532	94%
Turkey	85,501	100%	18,364	21%	67,137	79%
Regional Total	121,133	100%	20,464	17%	100,669	83%
Europe						
Portugal	323	100%	262	81%	61	19%
Spain	3,026	100%	-	-	3,026	100%
Regional Total	3,349	100%	262	8%	3,087	92%
Africa						
Ethiopia	10,454	100%	4,655	45%	5,799	55%
Tunisia	2,476	100%	488	20%	1,988	80%
Regional Total	12,930	100%	5,143	40%	7,787	60%

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FY 1974 MAP BY COST CATEGORIES (Continued)

(Dollars in Thousands)

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	TOTAL PROGRAM		OPERATING a/		INVESTMENT b/	
	Dollars	Per Cent	Dollars	Per Cent	Dollars	Per Cent
Latin America						
Bolivia	3,996	100%	1,033	26%	2,963	74%
Dominican Republic	796	100%	279	35%	517	65%
El Salvador	400	100%	50	12%	350	88%
Guatemala	1,080	100%	9	1%	1,071	99%
Honduras	400	100%	60	15%	340	85%
Nicaragua	1,023	100%	194	19%	829	81%
Panama	230	100%	137	60%	93	40%
Paraguay	550	100%	167	30%	383	70%
Uruguay	1,000	100%	763	76%	237	24%
Regional Program	525	100%	525	100%	-	-
Regional Total	10,000	100%	3,217	32%	6,783	68%
General Costs	93,948	100%	34,493	37%	59,455	63%
WORLDWIDE TOTAL (TOA)	771,500	100%	283,063	37%	488,437	63%

a/ Operating costs represent the value of equipment, supplies, and services required to operate and maintain the capability of country assets, low unit value secondary items and all expendables-except war reserve ammunition, initial stockage level of spare parts and secondary items programmed as a part of a major item or system investment. Also included in operating costs are the charges for supply operations (shown as general costs, not distributed by country) which represent the costs of packing, crating, handling and transportation incurred in the issue and transfer of materiel in the operating and maintenance category as well as logistics management expenses.
b/ Investment costs represent the value of equipment, supplies and services which increase the force capability including initial unit equipment, war reserves of equipment and ammunition, replacement of obsolescent equipment by improved types, the initial stockage level of spare parts programmed for shipment concurrent with related major items, all construction and the cost of supply operations (shown as general costs, not distributed by country) required for investment materiel and services.

Revised May 1, 1973

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MAP STATUS OF DELIVERIES

(Dollars in Thousands)

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Countries	FY 1950-1971	FY 1972	Undelivered as of 30 June 1972
East Asia & Pacific			
Burma	76,329	292	12
Cambodia	173,414	123,625	157,922
ROC	2,546,894	19,717	19,210
Indochina	709,575	-	-
Indonesia	86,521	7,859	20,938
Japan	855,028	-	-
Korea	3,070,758	164,299	230,016
Laos	330,701	-	-
Malaysia	1,186	128	-
Philippines	424,528	16,028	22,197
Thailand	588,090	-	-
Vietnam	1,476,263	-	-
East Asia Area	248,156	73	-
Regional Total	10,587,443	332,016	450,295
Near East & South Asia			
Afghanistan	4,183	190	4
Greece	1,953,242	28,534	14,648
India	93,790	159	696
Iran	826,837	6,285	3,585
Iraq	46,694	-	-
Jordan	68,319	22,629	29,063
Lebanon	9,681	385	4,204
Nepal	1,856	22	-
Pakistan	672,250	83	-
Saudi Arabia	35,717	394	13
Sri Lanka (Ceylon)	860	634	1,650
Syria	57	-	-
Turkey	2,880,260	94,975	114,194
Yemen	1	-	-
NESA Area	19,257	17	-
Regional Total	6,212,994	154,307	168,057
Europe			
Austria	97,516	11	-
Belgium	1,237,603	-	-
Denmark	617,879	-	-
Finland	74	11	-
France	4,153,053	-	-
Germany	900,806	-	-
Italy	2,290,228	-	-
Luxembourg	8,236	-	-
Netherlands	1,216,984	-	-
Norway	893,507	-	297
Portugal	318,585	594	2,484
Spain	591,059	13,52	32,291
United Kingdom	1,034,478	-	-
Yugoslavia	693,856	-	-
Europe Area	211,219	335	64
Regional Total	14,265,082	14,483	35,131

Countries	Fy 1950-1971	Fy 1972	Undelivered as of 30 June 1972
Africa			
Cameroon	249	-	-
Dahomey	62	-	-
Ethiopia	152,153	11,160	9,877
Ghana	214	21	-
Guinea	883	2	-
Ivory Coast	60	-	-
Liberia	7,486	373	207
Libya	15,443	-	-
Mali	2,799	43	-
Morocco	37,330	1,424	66
Niger	57	-	-
Nigeria	1,418	87	12
Senegal	2,002	-	1
Sudan	694	-	-
Tunisia	29,077	2,337	5,631
Upper Volta	77	-	-
Zaire	25,833	422	33
Africa Area	184	21	-
Regional Total	276,020	15,890	15,827
Latin America			
Argentina	43,947	648	237
Bolivia	23,832	2,104	3,067
Brazil	219,671	868	1,736
Chile	92,309	2,227	610
Colombia	92,920	1,067	193
Costa Rica	1,829	-	-
Cuba	10,575	-	-
Dominican Republic	25,169	931	1,291
Ecuador	42,418	-	481
El Salvador	6,522	340	116
Guatemala	17,237	637	2,535
Haiti	3,187	-	-
Honduras	8,140	703	193
Jamaica	1,116	-	-
Mexico	1,919	99	-
Nicaragua	13,202	551	823
Panama	4,262	347	914
Paraguay	9,634	1,062	231
Peru	87,461	1,166	605
Uruguay	42,307	1,060	742
Venezuela	10,191	629	27
Latin America Area	15,677	199	37
Regional Total	773,504	14,668	14,138
General Costs	2,762,898	22,821	8,811
WORLDWIDE TOTAL	34,878,741	554,185	692,059

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SUMMARY OF STUDENTS TRAINED UNDER MAP
FY 1950 – FY 1972

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Country	United States	Overseas	Total
East Asia & Pacific			
Burma	775	19	794
Cambodia	272	35,766	36,038
ROC	19,934	4,198	24,132
Indo China	408	26	434
Indonesia	3,453	581	4,034
Japan	9,642	5,637	15,279
Korea	21,828	9,254	31,082
Laos	1,664	32,959	34,623
Malaysia	306	27	333
Philippines	9,025	5,306	14,331
Thailand	9,172	3,794	12,966
Vietnam	22,172	9,217	31,389
Regional Total	98,651	106,784	205,435
Near East & South Asia			
Afghanistan	319	-	319
Greece	11,852	2,157	14,009
India	504	33	537
Iran	9,018	1,789	10,807
Iraq	372	32	404
Jordan	665	29	694
Lebanon	229	1,188	1,417
Nepal	27	-	27
Pakistan	3,749	530	4,279
Saudi Arabia	1,086	204	1,290
Sri Lanka (Ceylon)	39	-	39
Syria	23	-	23
Turkey	15,687	2,559	18,246
Yemen	5	-	5
Regional Total	43,575	8,521	52,096
Europe			
Austria	397	11	408
Belgium	3,768	1,430	5,198
Denmark	3,836	811	4,647
France	12,600	1,742	14,342
Germany	1,190	434	1,624
Italy	8,144	1,219	9,363
Luxembourg	63	113	176
Netherlands	4,744	1,553	6,297
Norway	4,042	1,386	5,428
Portugal	2,165	634	2,799
Spain	7,530	1,274	8,804
United Kingdom	3,719	148	3,867
Yugoslavia	625	219	844

Country	United States	Overseas	Total
NATO Agencies	465	-	465
Regional Program	27	-	27
Regional Total	53,315	10,974	64,289
Africa			
Ethiopia	2,991	124	3,115
Ghana	138	-	138
Guinea	4	-	4
Liberia	485	-	485
Libya	429	41	470
Mali	68	5	73
Morocco	911	1,104	2,015
Nigeria	462	-	462
Senegal	16	-	16
Sudan	117	8	125
Tunisia	294	161	455
Upper Volta	24	-	24
Zaire	275	266	541
Regional Total	6,214	1,709	7,923
Latin America			
Argentina	2,524	744	3,268
Bolivia	420	2,710	3,130
Brazil	6,699	879	7,578
Chile	2,632	2,300	4,932
Colombia	2,188	2,936	5,124
Costa Rica	33	496	529
Cuba	307	214	521
Dominican Republic	656	2,400	3,056
Ecuador	1,561	2,839	4,400
El Salvador	200	1,077	1,277
Guatemala	656	1,920	2,576
Haiti	444	60	504
Honduras	221	1,791	2,012
Mexico	427	232	659
Nicaragua	693	3,704	4,397
Panama	48	3,282	3,330
Paraguay	345	917	1,262
Peru	3,066	2,719	5,785
Uruguay	1,013	1,031	2,044
Venezuela	1,460	3,188	4,648
Regional Total	25,593	35,439	61,032
WORLDWIDE TOTAL	227,348	163,427	390,775

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SEPARATION OF ACCOUNTS

Mr. PASSMAN. Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

Admiral Peet, a number of the items in your request have been shifted to new accounts or set aside as separate accounts for the first time. I refer specifically to the shift of the President's supporting assistance program for Cambodia, Laos, and South Vietnam over to an account called Indochina postwar reconstruction assistance.

Admiral PEET. Yes, sir.

Mr. SHRIVER. And the transfer of the military training program to a separate account. This makes comparisons difficult. Referring to the table on page 39 of your summary book, if we are to get an accurate comparison of your total program level for fiscal 1974, we would have to add $630 million, which is requested for Indochina, to the $1.3 billion, is that correct?

Admiral PEET. $632 million is earmarked for supporting assistance and relief construction for Indochina.

Mr. SHRIVER. Do we add that then to the $1.3 billion?

Admiral PEET. We do, yes, sir.

Mr. SHRIVER. What is it you are actually intending to spend in fiscal 1974 for your program?

Admiral PEET. When you talk about my program, sir——

Mr. SHRIVER. I am talking about military assistance.

Admiral PEET. Supporting assistance doesn't come within my purview. That is managed and handled by Dr. Hannah, Mr. Nooter of AID, and Dr. Tarr of the State Department.

Mr. SHRIVER. Do the figures listed there for grant military assistance for fiscal 1972 and 1973 reflect the elimination of the training program from that account for fiscal 1974?

Admiral PEET. Yes; they do. The training has been pulled out of the grant military assistance country and regional figures in the State summary presentation.

Mr. SHRIVER. Comparison for the 3 fiscal years is accurate then for the grant program?

Admiral PEET. Yes, sir, on a country and regional basis.

Mr. SHRIVER. Aside from the new title, how does the Indochina postwar reconstruction assistance program for Cambodia, South Vietnam, and Laos differ from the supporting assistance program there for fiscal 1973?

Admiral PEET. I don't know the details of that difference.

Mr. SHRIVER. How are we going to make comparisons then?

Admiral PEET. I think you will have Bob Nooter coming here before you shortly to talk about that particular point. I would rather not testify as to the makeup of the $632 million for reconstruction. I don't know the details. I believe you will have a group coming before you to talk to that matter.

Mr. PASSMAN. Yes; that is correct.

TOTAL PROGRAM ACCOUNTS

Mr. SHRIVER. I have been on this committee since 1965, and it is difficult reading these justifications. What is the status of your authorizing legislation which would provide for these changes in your accounts?

Admiral PEET. We appeared before Dr. Morgan's committee just last week, and it is still in committee.

Mr. SHRIVER. In addition to this request, how much is being requested for military assistance for the defense budget?

Admiral PEET. That is a subject that is being debated also.

Mr. SHRIVER. I mean in your requests?

Admiral PEET. In the one submitted to the Hill, it is about $1.9 billion.

Mr. SHRIVER. Almost $2 billion?

Admiral PEET. Yes, sir. The total program ceiling is $2.1 billion and $1.9 billion is the new obligation authority.

Mr. SHRIVER. Military assistance would be $630 million?

Admiral PEET. In addition to that. When you said "military assistance," I want to be sure I understand. I thought you were still talking about the reconstruction money that is akin to supporting assistance.

Mr. SHRIVER. That is what it is?

Admiral PEET. Yes, sir.

SOUTH KOREA DETERRENT CAPABILITY

Mr. SHRIVER. You mentioned in your statement the need to help South Korea develop a credible deterrent posture in order to meet the North Korean threat.

Admiral PEET. Yes, sir.

Mr. SHRIVER. I think I have been reading in the papers of a lessening of tensions over there. Is that true?

Admiral PEET. There is a hope of lessening of tensions inasmuch as the two countries are trying to get together.

Mr. SHRIVER. What is the status of that?

Admiral PEET. ———.

Mr. SHRIVER. My 5 minutes are up, Mr. Chairman.

[Discussion off the record.]

STATUS OF THE DOLLAR

Mr. PASSMAN. I want to make this statement for the record.

We have been arguing the last few days here about the position of the dollar abroad. A frightening thing happened today. The dollar dropped to an alltime low, and all European nations are running from the dollar. It caused Dow-Jones to drop 8 points in the first hour. It is the greatest threat to the dollar in the history of our country. Did you hear that on the news broadcasts?

Adimral PEET. Yes, sir.

Mr. PASSMAN. Keep that in account when you make these requests.

Admiral PEET. Yes, sir.

RECIPIENT COUNTRY RESPONSIBILITY

Mr. PASSMAN. Mr. Roush.

Mr. ROUSH. Thank you, Mr. Chairman.

I would want the record to reflect, in a very respectful way, that I do not share my chairman's positive view toward the military assistance program. As a matter of fact, I take a very negative view toward

the military assistance program, and I thought perhaps that might help you in providing answers.

Admiral PEET. It orients me, sir.

Mr. ROUSH. In your statement, pages 2 and 3, the last sentence on page 2 and continuing over to page 3, you state:

> Provision of military security assistance is predicated upon recognition by recipient nations that responsibility for defense is a matter on which they must make the basic decisions and be willing to devote a fair share of their own resources.

Admiral PEET. Yes, sir.

Mr. ROUSH. What is considered an index as to a fair share of their own resources?

Admiral PEET. I don't believe we have any fixed index, sir. In the short time that I have been with this program one thing that I have found is that you have to take each country by itself, and evaluate whether or not it is participating or devoting a fair share to its defense. There are many examples around the world. We are trying to get them to increase in many cases, and I think we are being successful. Korea is an example. You hear that perhaps the percentage of the gross national product that they devote toward defense is too small compared to what is going on in North Korea. However, I think you have to look at it as a whole. You have to look at what their economic situation is and how much they can afford to devote. It doesn't do any good if they spend a large percentage for defense and then have economic troubles.

Mr. ROUSH. Would you say that a nation which is operating with a surplus in their treasury each year is a nation which requires assistance from this country, military assistance?

Admiral PEET. Here again you would have to look at the circumstances, sir, on a country-by-country basis.

Mr. ROUSH. It isn't difficult for me, Admiral, to come to the conclusion that if a nation is operating with a surplus in its treasury, that they are not devoting their own resources to their own national defense, and are leaning on this country. I know this is true with regard to certain countries which are recipients under this military assistance program and under your other program.

Let's take a nation which perhaps devotes say only 2 percent of its gross national product to its own national defense. Would you say that is a nation which is devoting its fair share of its own resources to its defense?

Admiral PEET. In my opinion, that is too low and, in those cases where that is the fact, we are trying to get them to increase it.

Mr. ROUSH. Let's increase that to 3 percent.

Admiral PEET. I wouldn't be a good judge to decide what the crossover point is. That is State's purview and responsibility.

GNP PERCENTAGE FOR NATIONAL DEFENSE

Mr. ROUSH. My time is about up, but let me express my concern here. I caused a study to be done last year by the Library of Congress, Mr. Chairman. It was in two parts. One part dealt with the nations receiving military assistance and the percentage of their gross national product which they devoted to their own national defense. How many do we have, 44 countries?

Admiral PEET. Involved in the program?

Mr. ROUSH. Yes.

Admiral PEET. There are 44 countries, both materiel and training.

Mr. ROUSH. Forty-four. I think at that time I had 47 listed.

Admiral PEET. Yes, that is in the ball park.

Mr. ROUSH. Of those, only 4 of those 47 countries devoted a larger proportion of their gross national product to their national defense than did the United States. All the rest of them devoted a lesser portion. Of the 40-some countries, Mr. Chairman, I also discovered that there were 4 countries that were operating with a surplus in their budget, and yet we were called upon to provide military assistance. This bothered me, Admiral.

Admiral PEET. You have to be careful of those figures, Mr. Congressman, in that oftentimes when we say percent of the gross national product devoted to national defense, the figure may be misleading because, in addition they do spend a large amount on their police and other similar forces to create stability in the country.

PURPOSE OF TRAINING PROGRAMS

Mr. ROUSH. The Chairman mentioned the training programs a moment ago. We are providing training programs for both Pakistan and India. Are we preparing them so they can conduct a pretty good war against each other again?

Admiral PEET. I don't think that is a fair conclusion. We provide training for them. It gives us a certain influence in the country. I think the value of training in the military assistance program has proven itself over the years. If you want to have influence in a country, and you want to try to prevent their fighting each other, providing them with training and the equipments that they are going to get one way or another gives you a lot more leverage than just standing aside.

Mr. ROUSH. My time is up, Mr. Chairman.

Mr. PASSMAN. Thank you. This may contribute something to our deliberations. Let us take Japan. After World War II, we imposed a restriction on Japan whereby she could not support armed forces as such and this was included in her Constitution. Until they change the constitution we are going to have to live by what we imposed upon them under the occupation days, isn't that true?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Of course they just don't have the votes in the Diet to amend their Constitution at this time. This is one of the things we are confronted with.

The views of my colleague from Indiana and mine are not as far apart as he would imagine at this time. I only say that I support this program, but I have certain reservations about certain nations, and I think possibly 25 of them should be eliminated just by a stroke of the pen. I am only talking about those nations where we have made these tremendous investments, and unless we continue our support, it is perfectly obvious that these big investments will go down the drain.

MILITARY ASSISTANCE ON LOAN BASIS

If the recipient nations of the military assistance program, let us say Cambodia, Laos, Korea, and South Vietnam should agree that all subsequent military assistance and economic aid should be on a

loan basis, rather than on a grant basis, if they themselves agree to that would you not support that position?

Admiral PEET. Yes, sir. Our basic policy to phase out the grant aid as fast as we can in any country and convert to FMS sales.

Mr. PASSMAN. I named four countries in particular there. If these four countries should say, "We are willing now to accept military and economic assistance on a loan basis, to be repaid in dollars on a concessionary basis of course, then you would support that position.

Admiral PEET. Yes, sir. However, in the case of three of the four countries, that would be a very difficult thing to do right now. We are doing that in the program for Korea.

Mr. PASSMAN. You are not all the way. I don't see why, if the people who run this program agree that we have now reached a point where we should provide this aid on a loan basis and not a grant basis, we should not pursue this course of action. If they are developing countries, we would assume when they have some degrees of stability that they would become self-supporting and would be able to start repaying these loans subsequently, is that right?

Admiral PEET. Yes, sir.

Mr. PASSMAN. You never know when these countries are going to strike oil or some other mineral or some other condition takes place which would start these people on their way. I don't think we should prejudge who may or may not be able to pay. You would have to cross that bridge when you get to it, would you not?

Admiral PEET. Yes, sir.

Mr. PASSMAN. But all of your aid, whether it is economic or military, is based on the premise that these are developing nations, and they will sooner or later become self-sufficient, and would be able then to stand on their own. I believe this observation is certainly worthy of your study. After World War II, when European nations were flat on their backs, we came up with the Marshall Plan and put it on a grant basis. I think there was some $32 billion of grant aid we gave to the European nations. Had we made the $32 billion available on a concessionary loan basis, such as the IDA formula, you would be in your third repayment phase now and they would be repaying on these loans. They are waxing fat with wealth now and they could very easily be repaying us, so in this instance we just didn't look far enough into the future. I hope we don't make that mistake now with these developing nations and just continue giving grants.

I know enough about our economy that I don't sleep at night just worrying about actually what kind of a deplorable situation we are getting ourselves into as a nation. As we sit here this afternoon, there are $80 billion floating around the world. The nations want to get rid of them. They are in excess of need to meet their commitments to commerce. We don't have any gold to pay for them. They want to dump these dollars. This was a bulletin that the dollar had dropped to its lowest point in the history of America. Of course with that the New York Stock Exchange had an 8 point drop in its first hour of operation. It just points up again that it is time to get our house in order. I do wish I could make some small contribution, without having my thoughts considered on the basis of personality. I try to be reasonable.

I hope that you gentlemen will give some thought to the necessity of keeping your request, as Dr. Hannah would say, your taking price, to a level that will not contribute to building up these surplus dollars abroad.

Admiral PEET. Mr. Chairman, there are several examples in the history of this program of cases in which we have shifted from grant to sales. These have been success stories.

Mr. PASSMAN. I want to commend you, and I just hope that you try to get more countries to switch to a loan basis.

Admiral PEET. We have approximately $250 million coming into the Treasury this year in principal and interest on direct loans we have made under this program and $90 million of repayments to U.S. banks for guaranteed loans.

Mr. PASSMAN. I am not quarreling with that. That may be 25 percent actually of what you expend each year. I don't think that you are trying to build a defense now against switching these countries to loans?

Admiral PEET. No.

Mr. PASSMAN. But if these people are willing to accept it on a loan basis we should go forth with it.

Admiral PEET. Absolutely.

Mr. PASSMAN. I want to commend you. Anything we can get helps that much.

Now we come back to Mr. Miller.

MAP PERCENTAGE FOR EAST ASIA

Mr. MILLER. I noticed where you state in prior years the major portion of the proposed grant military assistance effort will be directed to East Asia, with $502 million for five countries.

Admiral PEET. Yes, sir.

Mr. MILLER. That will account for 65 percent of the total grant assistance program being requested. Can you give us a little more information as to why those particular five countries, and were they the same five countries that were allocated the bulk of the assistance last year?

Admiral PEET. They are the same as last year, Mr. Miller. Obviously, with our 5-year modernization plan, there is a large amount allocated to Korea and Cambodia——

Mr. MILLER. Korea and the 5-year effort there, would that military assistance be necessary for the 5-year effort that you speak of.

Admiral PEET. We atempted to look at Korea with a view toward how can we best proceed to phase that country out of this program and get our troops out of the country. I believe it was in 1971 that the administration, working together with the Koreans, came up with this 5-year modernization plan in an effort to make them self-sufficient as far as the military is concerned. We are well into the program but we are well behind dollarwise, as you probably know, Mr. Miller.

MANUFACTURE AND PURCHASE OF MAP ITEMS

Mr. MILLER. The assistance that we send there will be items manufactured in this country and not dollars, is that correct?

Admiral PEET. Yes, sir. However, there is an effort to make them self-sufficient in some areas such as small arms and they are attempting to succeed in that effort.

Mr. MILLER. Is that saying then that dollars would be sent, and they would manufacture the small arms in their country?

Admiral PEET. No. We don't pay for anything that is manufactured in their country. We have, in a few cases, provided them with the capital investment items from U.S. sources necessary to do that sort of thing. All expenditures are made in the United States.

Mr. MILLER. What I am driving at is, in no way would we be sending dollars to Korea, and they in turn contracting with a third nation for military assistance equipment?

Admiral PEET. No, sir.

Mr. MILLER. Thank you. That is all, Mr. Chairman.

KOREA 5-YEAR MODERNIZATION PLAN

Mr. PASSMAN. Thank you, Mr. Miller.

Maybe we should place in the record at this point at least my understanding of the situation we have in Korea. I believe at the time the Nixon announcement at Guam with respect to the Nixon doctrine was made, we had 60,000 troops in Korea, and incidentally, we had maintained that number or a greater number in Korea for some 20 years, but under the Nixon doctrine, he said we will bring home 20,000 of our troops. The Koreans protested, but then they reached an agreement that they would modernize the Korean Forces at an expense of $1,500 million, but we would save $1,100 million by bringing the troops home, so under the Nixon doctrine, the net cost for the 5-year period would only be $400 million, is that correct?

Admiral PEET. Yes, sir, as I understand it, it is.

Mr. PASSMAN. I believe it has been testified to that the agreement was as close to a treaty as we could get without actually having a treaty.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Thank you very much. Mr. Long.

Mr. LONG. I yield to Mr. Yates.

MAP POLICIES AND OBJECTIVES

Mr. YATES. On page 1 of the statement the following appears: "The military assistance program needs greater understanding." How is it possible to get greater understanding of your program if so much of it is classified?

Admiral PEET. Mr. Yates, I think it is an understatement that it needs greater understanding, and I feel badly that we haven't explained it better. As far as classification is concerned, I will tell you anything that I know about the program.

Mr. YATES. That line just struck me. You say in the second paragraph: "The military security assistance program fosters favorable attitudes toward the United States and its policies and its objectives." What are its policies and objectives?

Admiral PEET. I have attempted to enunciate them at the bottom of the page and over on the next page. I have made this statement unclassified.

Mr. YATES. Its policies and objectives are "to help influence friendly and allied countries to pursue national objectives compatible with U.S. military strategy." Is that what you are telling me?

Admiral PEET. Yes. The policies and objectives are established not by me but by the State Department. I am the manager of the program.

Mr. YATES. How may we know that the Nation's national objectives are compatible with U.S. military strategy and U.S. foreign policy?

Admiral PEET. There are two ways. One, the program is an instrument of our country's foreign policy; and second, it is important to our country's defense policy. You have to look at the individual plans and goals for each country. You almost have to consider it country by country, Mr. Yates.

Mr. YATES. That is why I must confess to some confusion now. Early in the Vietnam war, we were told that the reason we were in Vietnam was because it was feared that if Vietnam were taken over by the North Vietnamese, that would strengthen the Communist Chinese. That is correct, isn't it? This was one of the arguments for our intervention at that time?

Admiral PEET. I will defer to your reading of it.

Mr. YATES. Isn't that your understanding of what was said at the time?

Admiral PEET. It was a very complex and confused situation, to say the least, Mr. Yates.

Mr. YATES. But you are not answering my question. Wasn't that one of the rationalizations given to the program?

Admiral PEET. I am sure it was one of them.

Mr. YATES. Is that still part of our national foreign policy? Are we not now engaged in building up a friendly relationship with the People's Republic of China?

Admiral PEET. Yes, sir.

Mr. YATES. And if that is true, is there the same need for military assistance in the Far East as existed some years ago?

Admiral PEET. It is a relative matter. As far as Vietnam is concerned, Mr. Yates, it is not under this program. It has been funded by MASF.

Mr. YATES. There are countries that are funded by this program?

Admiral PEET. Yes, sir, there are.

Mr. YATES. Why are we funding those countries?

Admiral PEET. Because the executive branch feels it is in the best interests of the United States to do so. The reasons differ around the world. Sometimes it is for political reasons, sometimes it is for forward defense reasons, and sometimes it is for the bases that we have access to in these countries. There are many reasons why we do it around the world.

POLICY RESPONSIBILITY

Mr. YATES. May I ask you why we are doing it in Cambodia now?

Admiral PEET. Yes, sir. I think the President feels that it is in the best interests of the United States, and that it will expedite or make more meaningful the peace effort that is going on over there. I want to be sure it is always understood that I don't have the responsibility for that type of policy.

Mr. YATES. Who does, somebody from the State Department?

Admiral PEET. The State Department.

Mr. YATES. Is there anybody from the State Department here?

Admiral PEET. They will be testifying before you in other sessions.

Mr. PASSMAN. And we will of course have the Secretary of State and the Secretary of Defense.

Admiral PEET. You will have Dr. Tarr.

Mr. YATES. You are telling me you are the military arm of that policy?

Admiral PEET. Yes, sir.

Mr. PASSMAN. We will subsequently have Secretary Rogers and also the Secretary of Defense. For various reasons we have had to postpone their appearances.

Mr. YATES. This gentleman is not from the State Department?

Admiral PEET. Mr. Forman is a counsel in the Defense Department. I am touchy about that because so many people have accused the Department of Defense of establishing these policies, but we don't.

Mr. YATES. I will save those questions for somebody else. I assumed that when you came up here with a statement as to carrying out these objectives, that you were going to testify respecting the objectives, but I will reserve my questions on that. I have no further questions at this time, Mr. Chairman.

Mr. PASSMAN. Admiral, even though you may not embrace the policy, you are taking the position that the policy is wrong, are you?

Admiral PEET. No; I am not.

Mr. PASSMAN. Thank you very much. Mr. Conte.

Mr. YATES. Is he taking the position the policy is right?

Mr. PASSMAN. I just want to be sure, because you are putting in your disclaimer there.

Admiral PEET. I will do my best to defend the policy. I am supporting the policy.

Mr. YATES. You are because you are an admiral in the U.S. Navy?

Admiral PEET. Yes, sir.

Mr. YATES. Charged with the duty of carrying out the policy?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Thank you. Mr. Conte.

EXECUTIVE AGREEMENT OBLIGATIONS

Mr. CONTE. Admiral, how much of the grant, sale, credits, and training contained in the budget request are necessary as a result of obligations undertaken by this country in executive agreements?

Admiral PEET. All the commitments have been made with the proviso that they are subject to the appropriation of money by the Congress of the United States.

Mr. CONTE. There is no doubt about it, but——

Admiral PEET. You see, you run into this sort of thing—whether or not that modernization plan in Korea is a commitment. Mr. Laird bent over backward to say that it was a plan, but many of the Koreans looked upon it as a commitment. I think technically it is not a commitment.

Mr. CONTE. Is there any way you can give us a breakdown of how much is going to each country because of executive agreements?

Admiral PEET. I will do my best. I will try to provide that.

[The information follows:]

Approximately $199 million in credit assistance and $118 million in grant assistance have been included in the fiscal year 1974 security assistance budget request as a result of commitments undertaken in executive agreements. Virtually all of these funds are in support of joint projects designed to improve the defensive capabilities of our allies. Because of budgetary and other considerations, these projects have been phased over more than 1 year. In each case, the agreements are clear that their implementation in future fiscal years is contingent upon the availability of funds and appropriate legislative authority.

I will review briefly the amounts involved for the various countries and the projects they are intended to support.

For the Republic of China, we have requested $10.7 million in credit assistance to support a program for the assembly of ——— on Taiwan. This program was initiated in October 1972. An additional $20.5 million in credit assistance and $28.3 million in grant assistance have been requested in support of a program, undertaken in February 1973, for the co-production of ——— on Taiwan.

For Greece, we have requested $65 million in credit assistance for the procurement of ——— as part of a modernization program for the Greek Air Force, undertaken in March 1972.

In the case of Jordan, we have requested $35.6 million in grant assistance to carry out the third phase of a modernization program agreed in May 1971.

The program for Korea includes sums for four agreed multiyear projects. They are:

$3 million in credit assistance in support of a program, undertaken in April 1971, for the production of ——— in Korea.

$2.6 million in grant assistance and $1 million in credit assistance in support of a similar ——— production program agreed in January 1972.

$5 million in credit assistance for procurement of ——— as agreed in July 1972.

$48 million in grant assistance as part of a program, agreed in August 1972, to modernize the Korean Air Force with ———.

For Malaysia, we have requested $19 million in credit assistance under a multiyear program for the procurement of ——— undertaken in June of 1972.

For Spain, we have requested $3.4 million in grant assistance to carry out commitments undertaken by the United States in the 1970 Agreement of Friendship and Cooperation. Under that agreement, as you will recall, the Spanish Government, for its part, granted the United States the right to use military facilities in Spain.

Finally, for Turkey, we have requested $75 million in credit assistance for the procurement of ——— as part of a program, undertaken in August 1972, to modernize the Turkish Air Force.

OPERATING AND MAINTENANCE COSTS

Mr. CONTE. You state the primary objective of the assistance and credit resources are directed to the capital requirements of the recipient countries. You also state these countries are expected to assume the bulk of operating and maintenance costs. How much of the request for fiscal 1974 is for operating and maintenance costs? Please provide a country-by-country breakdown for the record.

Admiral PEET. Yes, sir, I will be glad to. Our basic policy is to eliminate that type of cost from the grant programs. We have reached the point where most country programs are primarily composed of capital investment. We expect the countries to pay for the operating costs themselves; but we haven't achieved that in all cases, as you know.

Mr. CONTE. You will supply that for the record?

Admiral PEET. Yes, sir.

[The information follows:]

Of the request for fiscal year 1974 $283 million (37 percent) is for operating and maintenance costs. The breakdown by country is as follows:

Country	*Thousands*
East Asia and Pacific:	
Cambodia	$131,845
Indonesia	8,427
Korea	47,563
Philippines	4,361
Thailand	27,288
Regional total	219,484
Near East and South Asia:	
Jordan	2,100
Turkey	18,364
Regional total	20,464
Europe: Portugal	262
Africa:	
Ethiopia	4,655
Tunisia	488
Regional total	5,143
Latin America:	
Bolivia	1,033
Dominican Republic	279
El Salvador	50
Guatemala	9
Honduras	60
Nicaragua	194
Panama	137
Paraguay	167
Uruguay	763
Regional Program	525
Regional total	3,217
General costs	34,493
Worldwide total (TOA)	283,063

PURCHASE OF SPARE PARTS

Mr. CONTE. You indicate that the sales credits have a favorable impact on U.S. balance of trade.

Admiral PEET. Yes, sir.

Mr. CONTE. How much of the credit sales for 1974 are for spare parts for equipment purchased in prior years? How much are these countries spending on direct purchase of these spare parts of 1974?

Admiral PEET. I would like to provide that for the record. It is a detail I don't have with me right now.

[The information follows:]

THE 1974 SALES CREDIT—SPARE PARTS

On the basis of past performance, we estimate that approximately 20 to 25 percent of the sales credit for 1974 are for spare parts to maintain equipment purchased in prior years. We are unable to ascertain the value of such spare parts being purchased directly from industry by these countries during 1974 because much of the data pertaining thereto are not available from the Commerce Department until after the fact.

PAST LEVEL OF COMMERCIAL SALES

Mr. CONTE. Page 11 you provide 10-year figures for the foreign military sales, commercial sales, and grant assistance. What has the level of commercial sales been over the past 10 years?

Admiral PEET. I will provide that, too. It is at least half a billion a year.

[The information follows:]

During the 10-year period from 1964 through 1973, the total value of commercial sales was $4.3 billion.

STATUS OF SALES ACCOUNTS

Mr. CONTE. How many of the credit sales agreements are now in default? What is the outstanding principal value of these defaults? Please provide for the record a list of the countries in default and the amounts of defaults.

Admiral PEET. I will; but in summary, there are four countries right now that are in default—or in arrears—which is really a better term technically. It is 2 million out of a total of several billion.

Mr. LONG. Can you give us those countries?

Admiral PEET. Yes, sir. They are Chile, Ecuador, Paraguay, and Tunisia. We will provide the details for the record.

[The information follows:]

CURRENT STATUS OF OFFICIAL LOANS AND CREDITS OUTSTANDING ARREARS (MORE THAN 90 DAYS) AS OF APR. 25, 1973

	Principal	Interest	Total	Oldest due date
Chile	$1,007,765	$319,432	$1,327,197	January 1973.
Ecuador	441,334	143,113	584,447	October 1968.
Paraguay		63,362	63,362	January 1958.
Tunisia		50,800	50,800	June 1965.
Total arrears	1,449,099	576,707	2,025,806	

SUPPLY OPERATIONS REQUEST

Mr. CONTE. In your justifications for supply operations you show an increase of almost $8 million just because a new accounting procedure was adopted in fiscal 1973 rather than at the beginning. If not, why is the increase so large?

Admiral PEET. There has been a change in the accounting.

Mr. VON MARBOD. The increase in supply operations is directly related to our forecast of deliveries in fiscal year 1974. The supply operations account is treated as an annual account. For that reason, the amount identified for fiscal year 1974 would provide for moving items

that have been in the pipeline, as well as for estimated deliveries funded by the new obligation authority for fiscal 1974. To repeat, the supply operations are based on our best estimate of deliveries for the fiscal year. I will be happy to provide more detail for the record.

[The information follows:]

The amount shown for supply operations is directly related to deliveries.

Deliveries for fiscal year 1972 were $429,107—supply operations for the same period amounted to $62,037 or 14.5 percent.

Estimated deliveries for fiscal year 1973 are $439,938—the latest estimate for supply operations is $64,500 or 14.6 percent.

The amount of $69,200 for supply operations was arrived at by taking 14.7 percent of the estimated deliveries of $470,000 for fiscal year 1974.

OVERFLIGHT AND BASE RIGHTS

Mr. CONTE. You state the base and the overflight rights might have to be preserved or expanded in East Asia and the Pacific. Are there any particular areas in mind where it is necessary to expand these flights in fiscal 1974?

Admiral PEET. The overflight rights are important to us in the Philippines and in many of the areas if we are going to do our job in Vietnam, Cambodia, and so on.

I do not have the expanded area right in mind.

Mr. CONTE. Could you get that for the record?

Admiral PEET. I will get it for you.

[The information follows:]

OVERFLIGHT RIGHTS

The United States obtains overflight rights from the various countries in the East Asia Pacific region in two ways: as a part of formal agreements generally involving troop positioning and support and on an ad hoc basis. The latter arrangement requires the clearance of individual flights, as in the case of Burma, and imposes a considerable administrative burden when such flights are necessary. It would be desirable to reduce that burden where practicable by having formal arrangements made in advance to cover such instances. It is in this context that overflight rights should be expanded in the future.

Mr. CONTE. You state the bases in the Philippines are of prime importance?

Admiral PEET. Yes, sir.

Mr. CONTE. Your justification also shows an increase in aid to the Philippines for the coming year.

I was recently at Clark Air Force Base. What is our relationship with the Philippines with regard to our base rights there?

Are we under any pressure? Is the relationship good?

Admiral PEET. Currently I think our relationship is very good. We responded to them in a very meaningful way when they had a national disaster not too long ago.

Mr. CONTE. The flood disaster?

Admiral PEET. Flood disaster.

However, we probably will have to renegotiate our base agreement in the not too distant future. ———. In the CPD we have given a summary of the situation.

Mr. CONTE. You can expand for the record on that.

Admiral PEET. All right, sir.

[The information follows:]

———. Overall, Philippine MAP authorizations have declined to an average of about $16 million over the past several years, as compared to an average of $23.1 million from fiscal year 1946 to fiscal year 1970, and it has been increasingly difficult for the Philippines to effect significant progress toward modernization of equipment and forces. ———.

CAMBODIAN AIR OPERATIONS

Mr. CONTE. Where are the overseas training programs taking place for the Cambodian forces? How much of the training is being done by U.S. personnel at these overseas locations?

Admiral PEET. We are not doing any in-country training with U.S. personnel, but we are doing some in Thailand. I believe a certain amount is done in the United States.

Mr. CONTE. You no doubt heard the debate on the Cambodian issue on the floor a couple of weeks ago. There was a tremendous amount of discussion with regard to the number of American planes that have been lost over Cambodia in the past year.

Admiral PEET. Yes, sir.

Mr. CONTE. Could you give us a clear picture of how many planes were shot down, how many planes just went down because of malfunction, how many helicopters have gone down and how many people we have lost in Cambodia?

Admiral PEET. I will have to provide that for the record.

[The information follows:]

AIRCRAFT LOSSES IN CAMBODIA

The number and nomenclature of airplanes lost by the United States over Cambodia during the period January 27, 1973, through June 4, 1973 follows:

Type aircraft	Cause	Crew status
1 OV-10	Hostile fire	1 killed in action.
1 OV-10	Unknown	1 killed in action.
2 F-4	Hostile fire	2 missing in action, 2 recovered.
1 A-7	Aircraft malfunction	1 recovered.
1 A-7	Hostile fire	1 killed in action.

Mr. CONTE. This is very important.

Admiral PEET. Yes, but you understand that is different from the military assistance program for Cambodia. The combat air operations are funded——

Mr. CONTE. In the Defense appropriation bill?

Admiral PEET. Yes, sir.

Mr. CONTE. You know we cannot just put blinders on.

Admiral PEET. No, I am not asking you to.

Mr. CONTE. I have no doubt that this is going to come up when this bill comes on the floor of the House. This is a question that is going to be bandied around again. Your aide here was shaking his head yes, he knows.

Admiral PEET. No, it is coming—no question about it.

I believe Admiral Moorer is prepared to testify before this committee on that subject. He usually accompanies the Secretary of Defense.

Mr. PASSMAN. Who is that?

Admiral PEET. The Chairman of the Joint Chiefs, Admiral Moorer.

Mr. PASSMAN. Yes, he will be here with the Secretary of Defense.

Mr. CONTE. You think we ought to let this question go until then?

Admiral PEET. I will be glad to provide what you asked for for the record.

Mr. LONG. I did not quite hear the question of the gentleman.

Mr. CONTE. You remember the debate. There was great confusion over how many planes were shot down.

Mr. YATES. As opposed to being lost?

Mr. CONTE. Lost because of malfunction or something else; how many American personnel had been killed or how many had lost their lives, either through enemy fire or through malfunction?

In other words, I want a complete detailed report with regard to the Cambodian operation: helicopters, airplanes, and personnel.

Mr. LONG. Very good question.

Mr. CONTE. I will not take any more time.

EFFECT OF MILITARY ASSISTANCE CURTAILMENT

Mr. YATES. Mr. Chairman, may I ask you a question? Is it in order to ask this witness what would happen if the military assistance, which is requested, is not provided in accordance with your request to the countries that are outlined in your testimony?

Admiral PEET. Yes. I think it would be disastrous in many cases as far as U.S. interests are concerned.

Mr. YATES. In other words, is this in your field, your province to explain what would happen militarily. Is this something I should ask the witness from the State Department?

Admiral PEET. If you want a military assessment, I would prefer you to get that type of information from the Chairman of the Joint Chiefs.

Mr. YATES. OK.

Admiral PEET. He is responsible for that and ready to testify on that subject.

Mr. YATES. You have a very limited function in presenting this activity to the committee?

Admiral PEET. Yes, sir, I think I do. I am the manager of the program.

Mr. YATES. I will defer, OK.

MASF COUNTRIES

Mr. PASSMAN. Should we not state for the record at this point that until about 5 years ago, this committee handled all funds for Vietnam, Laos, and Thailand.

Mr. CONTE. At one time.

Mr. PASSMAN. Yes; they transferred these assistance programs over to the defense appropriation bill. Then, subsequently, they returned Thailand to this subcommittee. So even though Thailand until a year

ago was funded under the military appropriation bill, Thailand now is back under this subcommittee?

Admiral PEET. Yes, sir.

Mr. PASSMAN. You have only two that are not in this bill, Laos and Vietnam?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Let me say this, Admiral: The Chairman of this subcommittee is just trying to do a creditable job. I am not important, but this is an important subcommittee. It has a lot of responsibility. Otherwise, there would be no purpose for having this subcommittee.

INVITATIONS TO WITNESSES

Now, we observe in the room that a lot of people are absent who should be here. We see our very good friend from the State Department who must have been alerted he ought to get on down here and at least observe the deliberations.

Admiral PEET. Christian Chapman, yes.

Mr. PASSMAN. You have Mr. Curtis W. Tarr, Under Secretary of State for Security Assistance, do you not?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Is he not over all of this area?

Admiral PEET. He is the coordinator for the program. We work together every day.

Mr. PASSMAN. This is his bailiwick, this is under him.

Admiral PEET. Yes, sir; you have him scheduled to appear.

Mr. PASSMAN. Why is he not here now?

Admiral PEET. He was not invited.

Mr. CHAPMAN. He was not invited.

Mr. PASSMAN. Do you have to invite these people? Let me extend an invitation to him now, because his counterpart in economic aid is Dr. Hannah, is he not?

Admiral PEET. Yes, sir.

Mr. PASSMAN. I assume Mr. Tarr is an expert in this area.

Admiral PEET. He would be delighted to be here.

Mr. PASSMAN. I think it is his responsibility to be here and justify this program or back you up.

Admiral PEET. I think there is a misunderstanding; the invitation came to me only and, it was a——

Mr. PASSMAN. It was not an invitation to you, it was a notification that the hearings would start. I did not think we would have to get out formal embossed invitations to get you people down here.

Admiral PEET. No, sir, but I did get one from you.

Mr. PASSMAN. We did not emboss them.

Admiral PEET. I did not mean to imply it was embossed.

Mr. PASSMAN. I know; after all, this is his business and it is serious.

Admiral PEET. It is with me.

Mr. PASSMAN. We extend Mr. Tarr an invitation. I did not know we had gotten to that point. I just thought we would notify him that the hearings would start and they would have whatever witnesses they thought were quite appropriate because there are a lot of questions we want to ask. So if you will please extend him an invitation for us.

Admiral PEET. I am sure he will be here.

Mr. PASSMAN. Good.
Mr. Bevill?

POLICY RESPONSIBILITY

Mr. BEVILL. As I understand the Admiral's situation, actually, in effect, these programs are handed to you and they say this is what you are going to get for this country and that country, and it is up to you to administer?

Admiral PEET. In my capacity as Director of the Agency, that is true. I also have a Deputy Assistant Secretary of Defense hat which involves me in the formulation of policy with State and so on—certainly within Defense. But the policy responsibility lies with State.

Mr. BEVILL. Is the policy a political decision?

Admiral PEET. Yes, sir; it is set forth that way in section 622 of the Foreign Assistance Act.

Mr. BEVILL. In each of these countries I notice that you point out in your statement, each country has to be treated a little different or it may be a different problem and have to have a different solution.

Admiral PEET. Yes, sir.

Mr. BEVILL. I assume that, for example, the additional proposed $25 million in foreign military sales credits for South Korea, that would be decided really through the State Department?

Admiral PEET. Yes, sir. We have a council known as the SAPRC, Security Assistance Policy Review Council. These matters are brought up at that Council, which is chaired by Dr. Tarr, the Deputy Under Secretary of State. It is decided by the Council what the allocation will be by country.

Mr. BEVILL. This would be based on consultations with the country involved; for example, the Republic of South Korea?

Admiral PEET. We have consultation with the country team, which includes the MAAG, the Ambassador, and representatives from other departments of the Government. The CINC's are involved. Here in Washington, the NSC staff, Treasury Department, Commerce Department, AID, Defense, State—all are represented.

Mr. BEVILL. This is done each year, is that correct?

Admiral PEET. Yes, sir. What results is the congressional presentation documents that you have available.

Mr. BEVILL. In making these commitments to these countries, that is the Council that come up with all these figures——

Admiral PEET. Yes, sir. They are not commitments to the countries, although many people interpret them as such.

Mr. BEVILL. I see.

Admiral PEET. I know what you mean.

Mr. BEVILL. They would be recommendations?

Admiral PEET. Yes, sir.

Mr. BEVILL. What role this country should play as far as that particular country is concerned?

Admiral PEET. Yes, sir.

SEPARATION OF TRAINING PROGRAM

Mr. BEVILL. Now you have started this year, I noticed somebody mentioned it earlier, the $33 million education fund is handled separately.

Admiral PEET. Yes, sir.

Mr. BEVILL. What is the purpose of separating this? I am sure there is some good reason for it.

Admiral PEET. In order to improve understanding of the program, as Mr. Yates had indicated, and because we had difficulty along this line, we are trying to separate out the training countries.

There are many Members of Congress who are in favor of training. There are a number of countries around the world, in the neighborhood of 25, to which we provide training only—no material, equipment or anything of that sort. We wanted to separate that out, give it visibility, hopefully introduce a little more permanence into the training program worldwide.

Mr. BEVILL. When you say training, is this training confined to military training?

Admiral PEET. It is primarily a military training and education program.

That program is discussed on page 2 of the CPD.

Mr. BEVILL. But it is not altogether military training or education?

Admiral PEET. I think you would call it military training.

Mr. BEVILL. Yes. This certainly would not overlap with the economic program, then, would it?

Admiral PEET. No. We coordinate with State, trying to make sure that it does not.

Mr. BEVILL. I see.

AID TO TURKEY

Now, you have funds here, for example, that go into Turkey?

Admiral PEET. Yes, sir.

Mr. BEVILL. Are there any other countries giving Turkey any military assistance?

Admiral PEET. Yes, sir. I think they get something in the neighborhood of ——— percent of their total assistance program from Germany; Canada provides some.

I can provide this for the record if you like.

Mr. BEVILL. I wish you would.

(The information was supplied to the committee.)

Admiral PEET. Turkey is one of the more fortunate countries. It does get additional third country assistance.

Mr. YATES. Do you mean sales or assistance?

Admiral PEET. Assistance. In this case, it is grant.

Mr. BEVILL. Can you tell me where we benefit? Where do the taxpayers of the Nation benefit from these contributions to Turkey?

Admiral PEET. Well, I think they benefit in many ways as far as grant aid to Turkey is concerned. It is designed to make Turkey a more effective member of the NATO community and thus help us to better protect the southern flank at NATO, which is one of our forward defense areas.

Of the grant aid dollars that we spend, better than 95 percent of it is spent in the United States, not only for Turkey but worldwide.

Now, on the credit side, Turkey is doing remarkably well and making the transition from grant to credit. Just last year we closed a sizable deal with Turkey which is a credit program for the purchase of F–4's. We loaned them money and the interest rate for that loan

turned out to be ——— percent. Turkey is doing very well in purchasing on a credit basis.

Mr. BEVILL. Is Turkey a free country? Is it a Communist-dominated country?

Admiral PEET. Certainly, in my mind, they are very anti-Communist.

Mr. BEVILL. Very anti-Communist?

Admiral PEET. They are right on the border of the U.S.S.R. I just came back from a trip to Turkey during which we discussed their program. They are very much concerned about the need to modernize their forces and they are concerned about the threat on their borders. They need all the help that they can get.

DECREASE IN GRANT ASSISTANCE

Mr. BEVILL. Now, Admiral, I think it is commendable that we are getting more into the sales, away from the grant.

Admiral PEET. Yes, sir.

Mr. BEVILL. I think this is in line with President Nixon's policy; it certainly is good to get away from this giveaway business. But I notice that you keep asking for more money.

Admiral PEET. Yes, sir.

Mr. BEVILL. How do you explain that?

Admiral PEET. Well, I think in the case of Turkey we are trying——

Mr. BEVILL. Not just Turkey; I am talking about the overall program.

Admiral PEET. I think you notice the shift. The grant is decreasing; the credit is increasing.

Over the past several years, to give you a comparison, I think we have had about $10 billion more in sales than we did in grant. So it is a program that is paying off in the long run, as far as balance of payments of this country is concerned.

Mr. BEVILL. I am looking here now, it says, "military assistance program, in fiscal year 1972, $549.9 million," I assume.

Admiral PEET. Yes, sir.

Mr. BEVILL. And then in 1973, $819.7 million.

Admiral PEET. That is what we requested, but we did not get it.

Mr. BEVILL. You received $588 million?

Admiral PEET. Yes, sir. That is total obligational authority and not new obligational authority.

Mr. BEVILL. Here for 1974 you are asking for $771.5 million, if I read this correctly.

Admiral PEET. Yes, sir, in total obligational authority.

Mr. BEVILL. Now that is on the military assistance program; that is what you call the grant program, is it not?

Admiral PEET. Yes, sir.

Mr. BEVILL. You are asking us for $99 million more—the total appropriation at the bottom, which would be more accurate, it says you are asking—you got $553 million last year, now you are saying you need $652 million this year in grant money.

Admiral PEET. Yes. You recall that in 1973, the current fiscal year, we are operating under continuing resolution authority. We were restricted to expenditures at the rate established in the prior year.

Mr. PASSMAN. Part of it comes out of the pipeline?

Admiral PEET. Yes, sir; some deliveries do come out of the pipeline.

Mr. BEVILL. Same as you had last year.

Admiral, I have always supported your program, but I am getting more and more concerned about the way we are spending money.

Admiral PEET. Yes, sir.

Mr. BEVILL. The more I look into these things, the more concerned I get. I am anxious to see us head in the other direction.

You are cutting down on grants, as I understand.

Admiral PEET. Yes, we are.

Mr. BEVILL. That is the goal, but then when I look at what you are asking for, you are asking for more money every year.

Admiral PEET. Yes. Korea is a good example of why. We are asking for the money to carry out a modernization plan that will enable us to cut back by helping them to become self-sufficient militarily.

Mr. PASSMAN. Would the gentleman yield at that point?

If both Korea and Vietnam agreed to accept all military assistance on a loan basis, repayable in dollars you would support it, would you not?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Thank you very much.

Go ahead.

Mr. BEVILL. That is all I have, Mr. Chairman.

POSITION TITLES

Mr. PASSMAN. I yield to Dr. Long.

Mr. YATES. May I ask you a question——

Mr. LONG. Is this coming out of my time?

Mr. YATES. The Deputy Assistant Secretary of Defense title was for a civilian, I thought.

Admiral PEET. No. There are some military people who are in that role.

Mr. YATES. Who are Assistant Secretaries of Defense?

Admiral PEET. Yes, sir, Deputy Assistant Secretaries of Defense.

Mr. YATES. When did this practice——

Admiral PEET. In that capacity, I report to a civilian, Ambassador Hill, who is the Assistant Secretary of Defense for International Security Affairs; as the Director of the Defense Security Assistance Agency, I report directly to the Secretary of Defense.

Mr. YATES. I must say. I was under the impression——

Mr. PASSMAN. Gentlemen, may we take a brief recess and vote?

[Short recess.]

MILITARY AID ON A LOAN BASIS

Mr. PASSMAN. The committee will come to order.

I yield to Mr. Long.

Mr. LONG. I think there is quite an effort in which the chairman seems to join, and I do not want a response from the chairman for the time being, that we are somehow getting a better deal on foreign aid by shifting to a loan program. I know you are not the man with whom to take this up, but I just want to put it on the record, that this will only work if we get our loans back.

Admiral PEET. Our record to date is very good on that line.

Mr. LONG. I know it is.

Admiral PEET. It is outstanding.

Mr. LONG. That is the standard line. Of course it would be, as long as they expect to get more loans from us, we are going to get our money back. The test is when we stop lending and giving.

Admiral PEET. Is it in our best interest, though, to stop, Dr. Long?

Mr. LONG. I say when the time comes—you expect we are going to keep on lending forever?

Admiral PEET. I think we will keep on lending for quite some time. It is a pretty good deal for the United States.

Mr. LONG. Why lend if there never comes a time when we get paid back?

Admiral PEET. We do get paid back. This year alone the Treasury will receive $25 million.

Mr. LONG. How much are you sending out?

Admiral PEET. This year? We are asking for new obligational authority of $525 million. The $250 million is the repayment from past loans.

Mr. LONG. I know.

Admiral PEET. The deals we have made with the countries are excellent ones.

Mr. LONG. What happens—have you made any estimates—as these loans accumulate, pile up? The interest payments increase and there will come a time when the amount that these countries have to pay us in annual debt service is greater than the amount they are getting from us.

Admiral PEET. We watch that very carefully and take into consideration the circumstances in the individual countries before we make the loans.

Mr. LONG. Is that not in the nature of things?

If we are ever going to get paid back, is there not going to have to come that time when what they are paying back to us is greater than what we are giving them?

Admiral PEET. Yes, sir.

Mr. LONG. That is the test.

Admiral PEET. We are a long way from that point.

Mr. LONG. Do you not have to look forward to that?

Admiral PEET. Yes, but it is still quite a way.

Mr. LONG. Wait a minute. If you are not looking forward to that, then you are just giving us a bunch of propaganda.

Admiral PEET. We are looking forward to shifting from grant to credit to cash.

Mr. LONG. Do you have any models set up of how this debt service is going to accumulate as the loans accumulate?

Admiral PEET. Yes, sir; I can give you that information.

Mr. LONG. So that in 3, 4, 5 years, 10 years, assuming we continue to lend at current amounts, that they are going to be owing us or having to pay us.

Mr. VON MARBOD. Dr. Long, Treasury and OMB are preparing pro forma statements which will do exactly that.

Mr. LONG. Put that in the record.

[The information follows:]

ESTIMATED PROJECTION OF FMS CREDIT REPAYMENTS BY FISCAL YEAR AND GUARANTEED PRIVATE LOAN[1]

[Values in millions of dollars]

Country	Unpaid balance as of June 30, 1973	Payments due by fiscal year—											
		1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985/95
Argentina	51.8	9.5	8.5	7.9	7.3	5.7	3.8	3.8	3.4	1.6	0.3		
Australia	[2] 4.3												
Austria	2.5	2.5											
Brazil	62.7	12.1	11.8	8.8	7.1	6.6	6.5	4.3	4.3	.8	.4		
Ceylon													
Chile	36.7	6.5	4.1	5.4	5.3	5.5	5.3	3.6	1.0				
China	172.6	26.2	27.9	27.8	23.7	20.8	20.6	14.1	7.2	3.2	1.1		
Colombia	20.9	3.2	2.8	2.9	2.8	2.9	2.4	2.0	1.9				
Ecuador	.6	.6											
Greece	147.3	10.2	8.6	11.1	18.6	18.6	18.6	18.6	16.6	16.6	9.8		
Guatemala	6.1	.9	.8	.9	.9	.8	.8	.6	.4				
India	[3] 18.8	.9	.9										
Iran	159.7	36.1	42.4	39.0	29.7	12.5							
Israel	1,216.1	88.2	101.9	107.9	110.6	112.0	110.8	110.0	106.5	87.0	47.5	32.5	201.2
Jordan	56.8	8.3	8.1	7.5	7.0	7.0	7.0	6.1	3.5	1.4	.9		
Korea	56.2	2.3	6.5	7.4	7.4	7.6	7.6	7.5	5.6	3.2	1.1		
Lebanon	20.0	3.3	2.4	2.4	2.5	2.4	2.5	1.0	1.0	1.0	1.0	.5	
Liberia	2.0	.3	.2	.2	.2	.2	.2	.2	.2	.2	.1		
Malaysia	24.3	5.4	3.0	3.0	2.8	2.7	2.5	2.4	1.8	.7			
Mali	.5	.1		.1		.1		.1		.1			
Morocco	57.3	10.0	6.9	6.7	6.3	6.4	5.6	4.6	4.0	3.3	2.5	1.0	
Pakistan	4.1	2.5	.6	.5	.5								
Saudi Arabia	56.1	25.9	14.7	15.5									
Singapore	4.6	2.8	1.8										
Tunisia	2.2	.3	.2	.2	.3	.2	.2	.2	.3	.2	.1		
Turkey	35.0	1.6	2.9	4.1	4.1	4.1	4.1	4.1	4.1	4.1	1.8		
Uruguay	5.6	1.5	.8	.8	.7	.8	.7	.3					
Venezuela	39.5	6.9	8.3	8.7	4.8	2.9	2.7	2.4	1.8	1.0			
Zaire	17.8	2.3	3.3	3.3	3.3	3.4	1.5	.2	.2	.2	.1		
Total	[4] 2,282.1	270.4	269.4	272.1	245.9	223.2	203.4	186.1	163.8	124.6	66.7	34.0	202.2

[1] Excludes interest since interest payments are variables which depend on actual dates of disbursements.

[2] Projected cancellation of credit availability.

[3] Utilization of $17,000,000 of credit availability is under review.

[4] Fiscal year totals do not add to overall total due to footnotes 1 and 2.

Admiral PEET. You have to do it country by country.

Mr. LONG. I know that. I would like to see it all added up and see when the time is going to come when they are going to have to be paying more each year than they are going to get from us. That will show us whether they are ever going to pay us back. If somebody keeps lending me money, and I say to myself I am not going to pay them back, I am not going to tell them that. I will pay them back while they are lending but not when I have to pay out of my own money. It is easy for me to do that. In the meantime you can say that they are paying back. But actually, we are paying ourselves back.

Admiral PEET. There are countries that we are not lending to which are paying us back.

Mr. LONG. Name them.

Admiral PEET. India, Iran, Jordan, Liberia, Pakistan, and Singapore do not have proposed fiscal year 1974 credit programs but are making payments against previous loans.

Mr. LONG. I thought you said they were in default.

Admiral PEET. No, I did not say they were in default. As to the arrearages, the record sometimes indicates that there is room for argument as to whether they owe it to us in certain cases. We are talking about very small percentages, worldwide.

Mr. LONG. Again I would like you to give us a list for the record of what we have sold these countries on military sales and loans and all kinds of things, and what they have paid back.

Admiral PEET. Yes, sir.

Mr. LONG. What the percentage is.

[The information follows:]

THE FOLLOWING COUNTRIES ARE THOSE IN ARREAR

[Value in thousands]

Country	Credit loans	Payments						Percent arrea
		Due		Paid		Arrear		
		Principal	Interest	Principal	Interest	Principal	Interest	
Chile	32,429.4	$7,967.8	$1,246.5	$6,960.0	$927.1	$1,007.8	$319.4	14.3
Ecuador	572.9	441.3	143.1			441.3	143.1	100.0
Paraguay	217.4	217.4	63.4	217.4			63.4	22.5
Tunisia	5,014.3	2,814.3	569.7	2,814.3	518.9		50.8	.01

[1] Percent in arrears reflects both principal and interest.

PROJECTED DEBT SERVICING

Mr. LONG. I would like to have a projection for the future of what the debt service is going to accumulate to, the percentages and so on, so that we can approximate the time at which the real rub is going to come; namely, when they are going to have to pay us back more than we are giving them at that time.

I think you are going to find from past history in international lending, not just in U.S. experience, but for all countries, when that time comes, defaults occur. I predict and I hope you are around, and I hope I am around long enough to see this happen since it will take a few years, that you are going to find that we are not going to get the money back from most of these countries.

Mr. FORMAN. May I ask for clarification of what it is you are asking for? Are you asking when we will reach the point where in a particular year, a particular country will owe us more that year than we are disbursing?

Mr. LONG. I have in mind a projection annually.

Mr. FORMAN. Are you interested in whether, in a particular year, we are getting back more than we are lending that year or at any particular point in time?

Mr. LONG. We do not know whether we will get it back.

Mr. FORMAN. Or when the total debt is more than what we are doing for the country?

Mr. LONG. I want to know what their debt service will be at that time in comparison with what we would be lending them if we continued to lend at current rates; do you see what I mean?

Admiral PEET. Yes, sir; I think I understand what you mean.

Mr. LONG. If you can do that, that would be a good help.

Mr. PASSMAN. Thank you very much, Dr. Long.

Mr. LONG. Have I used up 12 minutes of my 5 minutes?

Mr. PASSMAN. We will be back to you. Thank you very much.

Mr. LONG. I have all these ideas and I never get to explore more than one of them.

Mr. PASSMAN. Off the record.

[Discussion off the record.]

Mr. PASSMAN. I believe my good friend from Maryland will read the record and when the record is properly read the repayment experience on loans has been good.

Mr. LONG. Would the Chairman yield on that?

Mr. PASSMAN. Yes, sure.

Mr. LONG. The gentleman speaks as if this were a business-like thing. If it is business, any businessman wants security. You cannot do that among nations, I realize that.

Mr. PASSMAN. Dr. Long, since we have had the program on a give-away basis so long, if you can come up with a plan that conceivably will put it on a business basis, and we start getting money back, is that not better than to continue an outright grant program?

Let me make my record if I may.

Mr. LONG. If I can add to that.

Mr. PASSMAN. You want to argue.

Mr. LONG. The gentleman answered me and I think I have a right to rejoinder.

Mr. PASSMAN. No; this is not any place to debate.

Mr. LONG. Your assumption is that putting this program on a loan basis is business because we are getting something back. This assumes we are getting back their money. It is quite possible, is it not, that we are paying ourselves back?

This year, for example, they are asking us to increase the amount of military and foreign credit sales grant aid. Now that amounts really to our saying that we are going to kid ourselves, put this on a loan basis, and that we are going to pay them enough extra money so that they are going to be able to pay us back part of this loan.

Mr. PASSMAN. I am not arguing with you, I want to get along with my questions. I want to say that my friend has a right to his own convictions.

STATUS OF PREVIOUS LOANS

I would like, if I may, to cite for the record the experiences we have had with loans to foreign countries.

I believe with the exception of the so-called World War I and II debts that on loans to nations, we have had a remarkable record of repayment. Most of the World War debts have been ignored because I think it was felt all the world was fighting for its life.

Mr. LONG. What about lend-lease to England in World War II—did we ever get any of that back?

Mr. PASSMAN. I am talking about loans since World War II now.

Mr. LONG. Lend-lease was composed of loans.

Mr. PASSMAN. I am not arguing. I will yield to you when I finish my statement and my interrogation of the witnesses.

Now let's take the Export-Import Bank, we handle that money. They have been in business, I believe, for some——

Mr. FORMAN. About 40 years.

Mr. PASSMAN. About 30 years or 40 years. Now this is an outfit that makes loans to foreign governments and foreign companies to finance the export of our commodities. I think by and large they have a remarkable repayment record, have they not?

Admiral PEET. Yes.

Mr. PASSMAN. Billions of dollars has been paid into the U.S. Treasury in the way of income taxes on profits made by the manufacturers who export their goods. Then if you follow that on down, the individual that helped manufacture the commodities, he too, earned a good living and paid substantial taxes into the U.S. Treasury.

Now if we move over to the Agency for International Development, and they have had a marvelous repayment record, I believe that under the development loan fund there is less than 1 percent of the nations delinquent on their loan repayments.

Under the military credit sales program loans have been made to various countries and some of these countries have paid those loans back and they have not requested additional credit, have they?

Admiral PEET. That is right.

Mr. PASSMAN. I believe they, too, have a remarkable repayment record.

Now am I correct, Admiral, in assuming that the repayment of a loan is based almost entirely upon the understanding that you have at the time you make the loan?

Admiral PEET. Yes, sir.

Mr. PASSMAN. We must take into account the premise of foreign aid from its inception up until today which has been based upon the fact that we are helping underdeveloped or developing countries; is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. I think many Members of the House at one time or the other, with the exception of the chairman, has supported these authorizations. I never voted for a nickel in authorizations since I have been here.

The premise is that these are developing nations and if we help them, sooner or later they will be self-sufficient and they in turn may be in postion to help us and to repay on loans made to them.

So I am not going to ridicule in advance of making a nation a loan until there has been some default.

Our experience has been too good. Most of the nations, I believe, which we refer to as developing nations, that we have made loans to have repaid those loans, is that not the record?

Mr. VON MARBOD. Yes, sir, it is.

Mr. PASSMAN. If you look at the record of repayment, in almost every category of government organization where we made loans and had an understanding about repayment these loans have been repaid, have they not?

Mr. VON MARBOD. They have

Mr. PASSMAN. So it is certainly better to put it on this basis and later charge part of it off than to take the position that every nation we are helping is crooked and that they are never going to meet any commitments when we start aiding them. I am not going to take that position.

Mr. LONG. They are paying back our money.

Mr. PASSMAN. The gentleman has a right to his opinion. But I do not take the position that everybody is a crook. I am trying to be quite factual about this.

Mr. LONG. If we are being factual——

Mr. PASSMAN. The repayment record on loans for many, many years has been good in all categories; is that a fair statement?

Mr. VON MARBOD. Outstanding.

Mr. PASSMAN. Thank you; let me ask you this——

Mr. LONG. Would the chairman yield on that?

Mr. PASSMAN. No, I am not going to at this particular time.

Mr. LONG. The gentleman is making a record.

Mr. PASSMAN. It just happens I am not yielding at this time.

NEW OBLIGATIONAL AUTHORITY

Admiral, there is a rather large request being made for aid and assistance this year. As we look at South Vietnam, the amount requested in the Defense budget is $1.9 billion, is that correct?

Admiral PEET. Yes.

Mr. VON MARBOD. For South Vietnam and Laos, Mr. Chairman.

Mr. PASSMAN. I am talking about the program in the immediate area of Southeast Asia.

Mr. VON MARBOD. Yes, sir.

Mr. PASSMAN. What is the division of the $1.9 billion between Laos and Vietnam?

Mr. VON MARBOD. $311 million of the new obligational authority identified for fiscal year 1974 is for Laos. The balance of $1.6 billion is for South Vietnam, Mr. Chairman.

Mr. PASSMAN. Then we move to the military assistance program as such. You are asking for $685 million in new obligation authority.

Mr. VON MARBOD. The $685 million includes training, sir.

Mr. PASSMAN. I want to look at the total.

Mr. VON MARBOD. Yes, sir, $685 million.

Mr. PASSMAN. I know, but cutting it into two parts does not reduce the amount.

Mr. VON MARBOD. No, sir.

Mr. PASSMAN. So it is $685 million?

Mr. VON MARBOD. In new obligational authority.

Mr. PASSMAN. We are not talking about expenditures but new obligation authority.

Mr. VON MARBOD. Yes, sir.

Mr. PASSMAN. That is what examine on. You are asking for $525 million in military credit sales?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Now we are in hopes that a good part of the $685 million can likewise be in loans. If that should be true, then at least, I think it is a step in the right direction. But if we move specifically now to military credit sales, could you give the committee a breakdown as to what nations you are proposing to provide military credit sales?

Admiral PEET. Yes, we can.

Mr. VONMARBOD. Mr. Chairman, for which fiscal year?

Mr. PASSMAN. 1974.

Mr. VONMARBOD. For fiscal year 1974, we are proposing for foreign military credit sales a total program of $760 million, of which we are——

Mr. PASSMAN. Let me go back so I can understand it.

I am looking at $525 million for the NOA request. What is the additional amount involved?

Mr. VONMARBOD. The difference between the $525 million in new obligational authority and the total ceiling requested of $760 million for foreign——

Mr. PASSMAN. Please, if we may, deal specifically with new obligational authority.

Mr. VONMARBOD. Yes.

Mr. PASSMAN. $525 million?

Mr. VONMARBOD. Yes, sir.

Admiral PEET. It is on page 3 of the CPD.

Mr. PASSMAN. I know. But if I am going to go by these books, I would not have you down here. That makes a total request of $3.110 billion when you total these three categories in new obligational authority?

Mr. VONMARBOD. Yes, sir.

Mr. PASSMAN. Question No. 2, how much do you have in undisbursed funds in category No. 1, namely, funds for Vietnam and Laos?

Mr. VONMARBOD. Mr. Chairman, I would like to provide for the record what is in the pipeline for Vietnam and Laos, if I may.

Mr. PASSMAN. All right.

[The information follows:]

MILITARY AID IN THE PIPELINE FOR SOUTH VIETNAM AND LAOS

Section 737(b) of the Department of Defense Appropriation Act, 1973 (Public Law 92-570, Oct. 26, 1972), requires a report to the Congress of the estimated value of military assistance service funded (MASF) support furnished on a quarterly basis.

Based on the reporting concepts and related data available under current DOD implementation of this provision, it is estimated that, as of March 31, 1973, the amount of the "pipeline" for South Vietnam was approximately $775 million, and the amount of the "pipeline" for Laos was approximately $80 million. In this context the term "pipeline" should be equated with estimates of unobligated amounts from current and prior year MSAF programs and as such would include all appropriations rather than solely material. Based on experi-

ence for the period July 1, 1972, to March 31, 1973, these unobligated amounts from fiscal year 1973 and prior year programs would cover obligations for somewhat less than 4 months in South Vietnam and less than 3 months in Laos, with 3 months of fiscal year 1973 remaining.

MAP PIPELINE

Mr. PASSMAN. Now category No. 2, the military assistance program, what do you have undisbursed in the pipeline for this item?

Mr. VONMARBOD. Mr. Chairman, the amount in the MAP pipeline as of June 30, 1972, was $692.059 million. We are estimating that, as of June 30, 1973, it will be $617.007 million.

Mr. PASSMAN. If you will, in answering these questions, in each instance give the committee your estimate as of June 30.

Mr. VONMARBOD. Yes, sir.

UNOBLIGATED FUNDS

Mr. PASSMAN. Now category No. 3, military credit sales, what are you going to have unobligated?

Mr. VONMARBOD. We are estimating that there will be zero unobligated balance for foreign military credit sales as of June 30, 1973.

PRIVATE FINANCING

Mr. PASSMAN. What programs are going to be deobligated for military credit sales to bring this up to $700 million plus?

Mr. VONMARBOD. We are estimating, Mr. Chairman, private financing of $313.3 million which we will guarantee at a charge to our new obligation authority of $78.3 million.

Mr. PASSMAN. I am not too sure that I quite understand.

Admiral PEET. The difference between the new obligating authority and the $760 million total is the private financing less funds set aside for DOD guaranteee.

Mr. PASSMAN. Are you saying then that the $525 million will enable you to make sales of $700 million?

Mr. VON MARBOD. Yes, sir; $760 million.

Admiral PEET. Yes, sir; using some of it for guarantee.

Mr. PASSMAN. Do you guarantee those repayments?

Mr. VON MARBOD. We do.

I would like at this point to defer to Mr. Forman of our General Counsel's Office, whom I feel can give you a good explanation.

Mr. FORMAN. Yes; we guarantee the banks.

TOTAL MILITARY SALES AUTHORIZATION

Mr. PASSMAN. Since the inception of the military sales program, what has been the amount authorized by the Congress, cumulative?

Mr. VON MARBOD. From the inception of the program preceding the Foreign Military Sales Act of 1968?

Mr. PASSMAN. Before the Military Sales Act; that is good enough.

Mr. VON MARBOD. Starting with 1968, Mr. Chairman, the amount of new obligational authority appropriated for foreign military sales in fiscal year 1969——

Mr. PASSMAN. Just give the grand total.

Mr. VON MARBOD. It was $296 million for fiscal year 1969.

Mr. PASSMAN. Would you mind giving the grand total? That is what we are interested in.

You can put that in the record if you will, by year, but give us the grand total.

Mr. VON MARBOD. I would like to provide for the record the NOA by year since the inception of the Foreign Military Sales Act.

[The information follows:]

Fiscal year:	*Amount (in millions)*
1969	$296
1970	70
1971	700
1972	400
1973	400
Total	1,866

Admiral PEET. I can give you a ball park figure. From 1950 to 1972, the grand total was over $18 billion.

Mr. PASSMAN. That is good enough.

Military credit sales is $18 billion?

Mr. VON MARBOD. That is cash and credit together.

Mr. PASSMAN. Cash and credit. All right, cash and credit out of this appropriation?

Mr. VON MARBOD. Credit sales of $3.2 billion were covered between 1950 to 1972 from this appropriation. Countries have paid the United States directly for the cash sales during this period.

Mr. PASSMAN. What is the outstanding amount at this time?

Mr. VON MARBOD. There is——

Mr. PASSMAN. Under accounts payable?

Mr. VON MARBOD. I would like to provide that for the record.

Mr. PASSMAN. I must have something on it now, because you destroy the entire record if you do not give me the information requested. You are bound to have it.

Mr. VON MARBOD. Speaking to the $18 billion figure, Mr. Chairman, we have delivered or expended $12,566,900,000 through fiscal year 1972. Speaking to the FMS credit loan figure of $3.2 billion, we have received about $1.25 billion of repayments through fiscal year 1972.

Mr. PASSMAN. All right. Then the outstanding, in accounts payable, at this time is about——

Mr. VON MARBOD. About $5.6 billion, for the total, including almost $2 billion of FMS credit payments.

I would like to provide a precise number for the record.

[The information follows:]

About $5,579,617,000.

RECOUPMENT ON FOREIGN MILITARY SALES

Mr. PASSMAN. Subtract that, if you will. What is the difference?

Admiral PEET. It is over $5.6 billion.

Mr. YATES. Is that $5.6 million or billion?

Admiral PEET. Billion dollars.

Mr. PASSMAN. Let me make the record.

You have made military credit sales of $18 billion?

Mr. VON MARBOD. Cash and credit.

Mr. PASSMAN. Cash and credit against military sales?

Mr. VON MARBOD. Yes, sir, through fiscal 1972.

Mr. PASSMAN. Even though I hate to see this country manufacturing military equipment as a business and keep people thinking about wars, it follows nevertheless, of this $18 billion, under the law under which we are operating today, the manufacturers pay about 52 percent of their net profits into the U.S. Treasury in the way of income tax. So when this is delivered, they declare a profit, as it is paid in, they pay tax on that, do they not?

Mr. VON MARBOD. They do.

Mr. PASSMAN. So after all, of the $18 billion in sales, there is only $5.6 billion outstanding; so if you did not collect a dime of it, it certainly means that you had a net recoup out of cash and credit out of this one item of $12.4 billion; is that correct?

Mr. VON MARBOD. That is correct, Mr. Chairman.

Mr. PASSMAN. Could you state for the record at this point the nations that are indebted to us for the outstanding military sales? Could you do hat?

Mr. VON MARBOD. Mr. Chairman, as of today there are four countries in arrears for repayments of credit loans.

Mr. PASSMAN. I did not ask you that question.

I asked if you would place in the record at this point the amount of money, by country, which is owed to the U.S. Government representing the $5.6 billion outstanding; will you do that?

Mr. VON MARBOD. I will do that.

[The information follows:]

The following amounts by country represent the undelivered balances which are not necessarily the amounts due. These amounts will become due and payable as we need funds to make progress payments to the manufacturers and where delivery is made. Of the total, we had cash on hand from customers totalling $376.6 million and unexpended credit of $634.1 million for a total of $1,010.7 billion. This would decrease the total outstanding balance of $4.6 billion.

FMS undelivered balances by area and country as of June 30, 1972

(In thousands of dollars)

	Undelivered balance
50–72	
East Asia and Pacific	629, 120
Australia	318, 392
Burma	101
Taiwan (ROC)	146, 759
Indonesia	6
Japan	69, 876
Korea	32, 683
Malaysia	11, 681
New Zealand	14, 919
Philippines	95
Singapore	6, 966
Thailand	27, 642
NESA	2, 506, 711
Greece	250, 095
India	20, 075
Iran	1, 008, 351
Israel	723, 596
Jordan	35, 090
Lebanon	10, 997
Nepal	2
Pakistan	41, 863
Saudi Arabia	393, 057
Turkey	23, 585
Europe	2, 038, 373
Austria	6, 203
Belgium	11, 294
Denmark	25, 742
Finland	59
France	15, 239
Germany	1, 199, 098
Iceland	436
Ireland	192
Italy	117, 338
Luxembourg	59
Netherlands	52, 934
Norway	41, 375
Portugal	4, 945
Spain	226, 902
Sweden	784
Switzerland	12, 376
Switzerland	12, 376
United Kingdom	323, 182
Yugoslavia	215
Africa	45, 662
Ethiopia	12
Ghana	13
Liberia	2, 104
Libya	2, 496
Mali	477
Morocco	33, 388
Nigeria	26
Senegal	6
South Africa	1
Tunisia	2, 313
Zaire	4, 826
American Republics	227, 102
Argentina	47, 030
Bolivia	21
Brazil	74, 853
Chile	17, 427
Colombia	12, 361
Costa Rica	21
Dominican Republic	9
Ecuador	108
El Salvador	9
Guatemala	5, 042
Jamaica	4
Mexico	458
Nicaragua	258
Panama	20
Peru	2, 583
Uruguay	5, 626
Venezuela	61, 272
Canada	57, 012
International organizations	75, 640
NAMFI	41
NMSSA	52, 628
NAMSA–F104	282
NATO Hqs	123
NATO projects	2, 582
NATO WPP	19, 984
Worldwide total	5, 579, 620

Mr. PASSMAN. How many nations are presently delinquent and by amount.

Mr. VON MARBOD. Mr. Chairman, as of today four nations are delinquent, Chile, Ecuador, Paraguay, and Tunisia—for repayment of loans, while there may be cash customers which have not met individual billings precisely on time, these would not be classified in arrears in the same sense as overdue loan payments we are discussing today.

Mr. PASSMAN. For an aggregate of what?

Mr. VON MARBOD. $2,025,800 of overdue payments for funds loaned under the FMS credit appropriation.

Mr. PASSMAN. $2 million out of $5 billion?

Mr. VON MARBOD. Yes, Mr. Chairman.

STATUS OF MAJOR CREDIT ACCOUNTS

Mr. PASSMAN. All right, sir. Could you name the largest creditor we had at the peak of operation?

Admiral PEET. It is Israel by far.

Mr. PASSMAN. All right, Israel. What has been the total credits extended to Israel?

Mr. VON MARBOD. Mr. Chairman, the cumulative credits extended to Israel through fiscal year 1973 amount to ———.

Mr. PASSMAN. What has been the repayment on that amount?

Mr. YATES. Does he mean 1973 or 1972?

Mr. VON MARBOD. Through fiscal year 1973. We have consummated the fiscal year 1973 program with the Government of Israel.

Mr. PASSMAN. That is right, so you can include it, so you can get the grand total up to date.

Mr. VON MARBOD. Yes, sir.

Mr. PASSMAN. What have they repaid on this account?

Mr. VON MARBOD. If I may state it in terms of the credits outstanding, they amount to $1,216,100,000.

Mr. PASSMAN. By process of a little arithmetic, we get it, do we not? Our clerk likes to figure. What is the difference?

Mr. VON MARBOD. $193 million.

Mr. PASSMAN. They have paid $193 million cash on the account?

Mr. VON MARBOD. Yes, sir.

Mr. PASSMAN. And they are not in arrears at this time?

Mr. VON MARBOD. They are not.

Mr. PASSMAN. They are up to date?

Mr. VON MARBOD. They are up to date.

Mr. PASSMAN. Let's take, if we may, the next largest creditor.

Mr. YATES. Would it be possible to find out when that period was, Mr. Chairman?

Mr. PASSMAN. He gave it to us. Cumulative.

Mr. YATES. Beginning as of what time?

Mr. PASSMAN. If you will, place in the record the total sales by year, then you get the grand total, then place in there the repayments by year.

Mr. VON MARBOD. I will do that.

[The information follows:]

GOVERNMENT OF ISRAEL—TOTAL FMS CREDIT SALES AND REPAYMENTS BY FISCAL YEAR

[In millions]

Fiscal year—[1]	Amount of sale	Repayment	Outstanding balance
1963 and prior	$24.8	$4.1	$20.7
1965	11.5	3.5	28.7
1966	80.8	5.4	104.1
1967	6.3	12.3	98.1
1968	25.0	12.4	110.7
1969	85.0	14.5	181.2
1970	30.0	14.0	197.2
1971	545.0	30.1	712.1
1972	300.0	45.2	966.9
1973	300.0	50.8	1,216.1
1974		88.2	1,127.9
1975		101.9	1,026.0
1976		107.9	918.1
1977		110.6	807.5
1978		112.0	695.5
1979		110.8	584.7
1980		110.0	474.7
1981		106.5	368.2
1982		87.0	281.6
1983		47.5	233.7
1984		32.5	201.2
1985		201.2	0
Total	1,408.4	1,408.4	0

[1] No activity for fiscal year 1964.

Mr. PASSMAN. Take the next largest creditor.

Mr. YATES. Mr. Chairman, I hate to interrupt your train of thought.

Mr. PASSMAN. You are not interrupting.

Mr. YATES. With respect to Israel, what is the first year?

Mr. PASSMAN. That is what we are requesting.

Mr. YATES. You are putting it in the record and I do not know what it is.

Mr. VON MARBOD. Fiscal year 1959, Mr. Yates.

Mr. YATES. Thank you.

Mr. PASSMAN. So it is 15 years old up to 1973. And they are up to date?

Mr. VON MARBOD. Yes, sir.

Mr. PASSMAN. Now the next largest creditor.

Mr. YATES. Mr. Chairman, off the record.

[Discussion off the record.]

Mr. PASSMAN. If you will, put all the facts in there.

I do want the record to show that this program is 22 years old and the aggregate sales have been $18 billion, $5.6 billion has been repaid, and there are four countries delinquent at this time for the small amount of $2 million.

Now, who is the next largest creditor? I believe we are establishing that the countries are responsible and pay their obligations—whether it is for canned fish or machineguns.

Mr. VON MARBOD. Germany is the next largest.

Mr. PASSMAN. Take Germany. What has been the total credit sales to Germany?

Mr. VON MARBOD. There have been no credit sales to Germany, Mr. Chairman.

Mr. PASSMAN. Then they are not a creditor.
Mr. VON MARBOD. There are cash sales to Germany of $5,102,051,000.
Mr. PASSMAN. It makes a good record and a good profit.
But let's get to the next creditor nation.
Admiral PEET. Turkey is another high creditor. They just started.
Mr. PASSMAN. Get into some that have some age on them.

SALES TO REPUBLIC OF CHINA

Mr. VON MARBOD. I believe I would refer you then, Mr. Chairman, to the Republic of China on Taiwan as a creditor under foreign military sales.
Mr. PASSMAN. What has been the total sales to the Republic of China?
Mr. VON MARBOD. Cash sales, Mr. Chairman?
Mr. PASSMAN. Total sales?
Mr. VON MARBOD. Total sales, $330,272,000 through fiscal year 1972, including $214.5 million of loans financed under FMS credit.
Mr. PASSMAN. What has been the repayment?
Mr. VON MARBOD. Repayments of loans Mr. Chairman, through fiscal year 1972, about $70 million, and they are current on both credit-financed and cash sales.
Mr. PASSMAN. Of the credit extended to them, they are current.
Mr. VON MARBOD. They are current, Mr. Chairman.
Mr. PASSMAN. I believe as we look at the record we are now borrowing money from the Republic of China. I think the largest amount we borrowed from them is $20 million, is that correct?
Mr. VON MARBOD. I don't know the answer to that question.
Mr. PASSMAN. Would you like to know the facts? Look at the record. Here it is. Let's just show that all people are not crooks. You will find it on page 87 of the Treasury bulletin of May 1973. I believe it shows we have been repaying on that loan but they did make us a loan of $20 million.
Mr. VON MARBOD. Thank you, Mr. Chairman.

MAP IN THAILAND

Mr. PASSMAN. Admiral, as was pointed out last year, Thailand's future budget request for military assistance will be considered in connection with the foreign aid appropriation bill instead of the Defense appropriation bill for fiscal 1974, is that correct?
Admiral PEET. Yes, sir.
Mr. PASSMAN. What are you requesting for Thailand?
Admiral PEET. In the MAP program?
Mr. VON MARBOD. For Thailand, Mr. Chairman, for fiscal year 1974 we are requesting $58,462,000 for material and supply operations. In addition to that, Mr. Chairman, we are asking for $1,500,000 for the training program for Thailand.
Mr. PASSMAN. If at some subsequent date it should be the policy of the Congress that we are going to change over to a loan basis, and you enter into a loan agreement to be repaid in dollars with Laos, Cam-

bodia, Korean, and Vietnam, then I would assume that that would include Thailand, would it not?

Mr. VON MARBOD. It would indeed, Mr. Chairman. As a matter of fact, for fiscal year 1974 we are estimating ———.

Mr. PASSMAN. That is fine, but I want to get these people on a loan basis altogether rather than on a grant basis. This is very embarrassing, but we might as well keep the record straight. We went out to Thailand and borrowed $100 million from Thailand at 6 percent interest to be repaid in 4½ years, and that money falls due on July 2, isn't that correct?

I want to ask this question of our friend here who is the counsel. Would you get the committee a little report and place it in the record as to what the United States is going to do on this $100 million loan due Thailand on July 2, whether we are going to be able to repay it taking into account what happened to the dollar today. It went to an all-time low and went all to pieces in Europe. Will you get us that report?

Mr. FORMAN. Yes, sir.

[The information follows:]

On December 31, 1968, $100 million in nonmarketable treasury bonds and notes were purchased by the RTG. These bonds paid 6 percent interest with a 4½ year repayment period beginning on July 2, 1973. On that date, the U.S. Government will begin repayment. We have no indication to date that the Thai Government will renew these bonds and we can foresee no circumstances under which we would not maintain the repayment schedule.

U.S. INVESTMENT IN KOREA AND VIETMAN

Mr. PASSMAN. Would you supply for the record an up-date of the tables appearing in the House Appropriations Report of last year on pages 4 and 5 showing the very large investment we have made in Korea and Vietnam, including the estimates for fiscal year 1973?

Mr. VON MARBOD. We will be happy to, Mr. Chairman.

[The information follows:]

U.S. investment in Korea

	Billions
Estimated Korea war costs DOD (fiscal years 1950–51)	$18.0
Cost of maintaining U.S. military forces in Korea (fiscal years 1954–72)	9.8
Military assistance grant aid (fiscal years 1950–72)	3.5
Economic assistance programs (fiscal years 1946–72)	5.6
Total	36.9

U.S. military casualties in the Korean war

Died from hostile causes	33,629
Died from nonhostile causes	20,617
Total deaths	54,246
Wounded or injured, nonfatal	103,284
Wounded or injured, fatal (added to deaths)	2,501
Total wounded	105,785
Missing in action	5,866
Captured or interned	7,140

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U.S. investment in Vietnam (outlays full costs)

	Billions
Estimated Vietnam war costs DOD (fiscal years 1965–73) (Includes MASF program)	$135.5
Economic assistance programs (fiscal years 1962–72)	4.6
Military assistance program (fiscal years 1962–65) (Funded Under Foreign Assistance Act)	0.9
Total	141.0

U.S. military casualties in connection with the Vietnam conflict

(January 1, 1961 through July 28, 1973)

Died from hostile causes	46,079
Died from nonhostile causes	10,309
Total deaths	56,388
Wounded or injured, nonfatal	303,653
Wounded or injured fatal (added to deaths)	5,164
Total wounded	308,817
Unaccounted for	1,249

Estimated outlays (full cost basis)

Fiscal year:	Billions
1969	$28.8
1970	23.1
1971	14.7
1972	9.4
1973 (estimate)	7.0

NOTE.—The narrative in the middle of page 5 of the committee report should reflect a reduction in U.S. forces in Vietnam from a high of 543,500 down to a level of 206 as of May 31, 1973. Of this number, 156 are Marine Corps guards for the U.S. Embassy in Saigon, and 50 are assigned to the Defense Attaché Office of the Embassy.

U.S. TROOP REDUCTIONS OVERSEAS

Mr. PASSMAN. Is it not true that the funds requested for security assistance are needed to implement the Nixon doctrine, which is aimed at reducing direct U.S. involvements overseas, and which requires our allies to assume a greater role in providing for their own security? I mean the Nixon doctrine when fully implemented will mean bringing all of our boys home from that part of the world, is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. As I read the record in 1969 we had 543,000 U.S. troops in South Vietnam, and today we are down to zero, is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. As I read the record, I believe that the costs of the war in 1969, with all the involvement in Vietnam was running $29 billion a year, and under the present projections the maximum military aid, would be in the range of $2 billion?

Mr. VON MARBOD. That is correct.

Mr. PASSMAN. Could you tell the committee what other troop reductions have taken place since the implementation of the Nixon doctrine by country and numbers. Could you place that in the record if you don't have it immediately available?

Mr. VON MARBOD. Yes; it was 20,000 in Korea.

[The information follows:]

Reductions in Numbers of U.S. Military Personnel by Country in Western Pacific Area Other than South Vietnam

June 30, 1969 to December 31, 1972 [1]

Country:	*Thousands*
Thailand	5
Japan (including Ryukyu Islands)	21
Philippines	12
South Korea	23

[1] Includes personnel both in-country and afloat offshore.

NIXON DOCTRINE BENEFITS TAXPAYER

Mr. PASSMAN. Could you please tell the committee what savings have accrued to the American taxpayers as a result of the Nixon doctrine?

Mr. VON MARBOD. In the case of Korea, Mr. Chairman, there have been savings realized as reported in last year's record of $100 million a year.

Mr. PASSMAN. Net savings?

Mr. VON MARBOD. Yes, sir.

Mr. PASSMAN. Over and above expenditures?

Mr. VON MARBOD. Yes, sir.

VIETNAM PEACE AGREEMENT VIOLATIONS

Mr. PASSMAN. We established earlier for the record, and I would like to have you verify it, that the cost of the Vietnam conflict from start to conclusion I guess in January, is $136 billion. That is the estimate we got. That is a tremendous amount of money. I believe the lives lost from start to finish are 56,000.

Admiral PEET. Yes, sir.

Mr. PASSMAN. And the casualties around 308,000. I think we would all appreciate a word from you at this time, since I know you do stay completely up to date every day on the movements in that area, about the violations in Vietnam as such. Have they slowed down in the last few days?

Admiral PEET. ———.

[Discussion off the record.]

FUNDING FOR TURKEY, JORDAN, ETHIOPIA, AND TUNISIA

Mr. PASSMAN. I yield to Mr. Roybal.

Mr. ROYBAL. I want to go into another phase of this thing altogether.

Mr. PASSMAN. Do you want to wait until we get to that?

Mr. ROYBAL. Whatever you say.

Mr. PASSMAN. I yield to Mr. Roybal.

Mr. ROYBAL. I would like to inquire with regard to the amounts of money that are being made available to Turkey and Jordan, Ethiopia and Tunisia. Can the amounts broken down as to what each individual country will be getting?

Admiral PEET. Yes, sir, we have that in the CPD and will provide it for the record, if you like.

Mr. ROYBAL. I would like to have that in the record.

[The information follows:]

[In thousands of dollars]

	MAP	International military education and training program	FMS credit
Turkey	85,501	2,499	75,000
Jordan	35,632	468	
Ethiopia	10,454	796	
Tunisia	2,476	324	2,500

LATIN AMERICAN COUNTRY PROGRAMS

Mr. ROYBAL. Insofar as Latin America is concerned you have $9.5 million and also moneys for Spain and Portugal in the amount of $3.3 million. Do we have a breakdown with regard to countries in Latin America?

Admiral PEET. Yes, we do.

Mr. ROYBAL. Can you tell me which of the Latin American countries will be receiving the most money?

Admiral PEET. I believe Bolivia receives the most. The program proposed this year amounts to close to $4 million. That is in the grant program. With respect to credit, we are thinking in terms of about $4 million for Bolivia.

Mr. ROYBAL. Why is it necessary to have that much for Bolivia? Are they more in trouble than usual?

Admiral PEET. There is a very unstable situation in Bolivia as you know and we are trying to help stabilize it.

Mr. ROYBAL. Isn't it internal?

Admiral PEET. Most of it is internal. As far as Bolivia is concerned we are primarily concerned about internal stability.

Mr. ROYBAL. But they don't really have border problems, do they?

Admiral PEET. Yes, some.

Mr. ROYBAL. What country?

Admiral PEET. Most of them do——

Mr. ROYBAL. One Latin American country invading the other?

Admiral PEET. They have a great history of that. They are concerned. Whether we believe it or not they believe they do have a problem along that line.

Mr. ROYBAL. So we make available the moneys necessary for them to perpetuate their belief that they are being invaded?

Admiral PEET. No.

Mr. LONG. We build up both sides.

Admiral PEET. No, we don't provide equipment except that which we feel can be used for their internal stability.

MILITARY TRAINING PROGRAM IN BOLIVIA

Mr. ROYBAL. We do provide military training for them, do we not?

Admiral PEET. Yes, we do.

Mr. ROYBAL. How much will it be costing us to train Bolivians in the United States?

Admiral PEET. We have broken down what we propose for training by countries too. The training program we are proposing for Bolivia in fiscal year 1974 amounts to $454,000.

Mr. ROYBAL. For training?

Admiral PEET. Yes, sir; for Bolivia.

Mr. ROYBAL. As long as we have started with the training, can you also if you don't have it at the moment supply for the record the breakdown for Bolivia loans?

Admiral PEET. What we propose to do with that $454,000 for training and the FMS credits for fiscal year 1974? We will provide that for the record; yes, sir.

[The information follows:]

$454,000 PROVIDED FOR TRAINING

	Number	Cost (in thousands)
Student training in United States (number of students):		
Flying	5	$132
Operations	1	7
Maintenance	23	18
Logistics/administrative	4	3
Professional/specialist	14	42
Orientation	3	3
Total	50	205
Student training overseas (number of students):		
Operations	51	136
Communications	11	26
Maintenance	19	31
Logistics/administrative	11	21
Professional/specialist	2	4
Orientation	7	4
Total	101	222
Mobile training teams overseas (number of teams):		
Communications/electronics	1	2
Supply/maintenance	1	4
Personnel/administration	1	3
Other	2	9
Total	5	18
Field training, contractor technicians	3	4
Training aids, books, maps and publications		5
Total		454

Note: The $4,000,000 foreign military sales credit is for the purchase of ——.

Mr. ROYBAL. How many officers do you train with $454,000?

Admiral PEET. There will be 50 in the United States as proposed. Overseas there would be about 101.

Mr. ROYBAL. So there are 151 officers who are being trained?

Admiral PEET. No, we are training a total of 151 officers and enlisted men.

TRAINING FOR SOPHISTICATED WEAPONS

Mr. ROYBAL. These people who come to the United States are trained with sophisticated U.S. weapons, are they not?

Admiral PEET. It depends on what you mean by sophisticated. They are given basic training. They are given all types of training, whatever is needed.

Mr. ROYBAL. Do they get the same kind of training that a U.S. military man gets?

Admiral PEET. No, not necessarily.

Mr. ROYBAL. You mean they don't train them that way?

Admiral PEET. Some of it is similar.

Mr. ROYBAL. It seems to me that if they get proper military training that they are trained in sophisticated military weapons.

Admiral PEET. The word "sophisticated" is a relative term. What used to be sophisticated years ago is no longer sophisticated now. They have helicopters, armored personnel carriers, that sort of thing, which they are taught to operate and maintain.

Mr. ROYBAL. When you use the term "sophisticated weapons" what do you mean? Maybe I don't really understand the word.

Admiral PEET. It is a rather vague term. Many people call a F–4 a sophisticated weapon, or an F–5 aircraft a sophisticated weapon.

Mr. LONG. But not you, of course. These planes are just modern symbols.

Admiral PEET. It is relative. It just depends on what age you are living in.

Mr. LONG. Or what you are talking about.

Admiral PEET. I agree.

Mr. LONG. We were talking about Latin America, with primitive economies and primitive military systems.

Admiral PEET. I am not so sure that I would call Brazil and countries of that sort all that primitive. Would you, Dr. Long?

Mr. LONG. Militarily?

Admiral PEET. Yes.

Mr. LONG. Come on.

PURCHASE OF SOPHISTICATED WEAPONS

Mr. PASSMAN. This is a pertinent question, Mr. Roybal, on the subject of sophisticated weapons. You say an F–4 is a sophisticated weapon?

Admiral PEET. Yes, sir. In the past, we have considered an F–4 a sophisticated weapon.

Mr. PASSMAN. A sophisticated weapon today that becomes excess tomorrow is delivered to a nation as excess property, does it cease to be sophisticated?

Admiral PEET. No, I wouldn't say that.

Mr. ROYBAL. What I am trying to get at, Mr. Chairman, is what the term "sophisticated weapon" would mean. I say that it may not mean sophisticated weapon to the General of the Armies of the United States, but it sure is sophisticated to the general of a country in Latin America.

Admiral PEET. I agree that "sophisticated" is a relative term. What might be sophisticated for one of our recipient countries might not be sophisticated for another recipient.

Mr. ROYBAL. Who haven't had these weapons, whose men are trained in the United States in the use of these weapons, so when they do return then to Latin America, they, of course, will first of all demand that their country have those weapons in which they were trained.

Admiral PEET. We are faced with a special situation in Latin America. The countries feel they need certain equipment. They are going to

buy them whether we like it or not. They will either buy them from us or they will buy them from other countries in the world, and their purchases will include sophisticated equipments as you apparently understand sophisticated equipments.

The Latin American countries to which we refused to sell what we were defining at that time as sophisticated equipments, such as jet aircraft, bought large numbers of them from France.

Mr. ROYBAL. Of course they bought from France, and I was on the committee at that time that appropriated the money that made it possible for a Latin American country to buy Mirages from France. They bought them from France but we in turn lend the money almost to the penny to that Latin American country, so what actually did happen was that we supplied the cash that was necessary to make that purchase. I don't want to argumentive on this point, but what I wanted to establish was your definition of a sophisticated weapon, and whether or not looking at this from the standpoint of the Latin Americans they were, in fact, receiving from us sophisticated weaponry. In your opinion are they getting sophisticated weapons insofar as they are concerned?

Admiral PEET. It depends on the country concerned. It is on a case-by-case basis. As I understand your definition of sophisticated weapons, yes. This is a subject that we in Government debate here, and State decides whether or not they are sophisticated for a particular country and whether that country should receive those weapons. That is not decided in the Department of Defense and we do not train them to use weapons that they do not have and are not programed to have.

RELATIONSHIP OF TRAINING TO SALES

Mr. ROYBAL. You bring them to West Point, don't you?

Admiral PEET. I imagine there are occasions where some come.

Mr. FORMAN. Not under this program.

Admiral PEET. I don't believe we do under this program.

Mr. ROYBAL. But they do come to West Point, that is officers in various Latin American countries and countries all over the world do come to West Point?

Admiral PEET. They probably do.

Mr. SHRIVER. Do they come for training? I don't know.

Mr. ROYBAL. They have in the past. They may not now.

Mr. PASSMAN. I believe Samosa from Nicaragua was trained under this program.

Mr. CONTE. Africans have been trained as well.

Admiral PEET. The various academies do have foreign students from time to time, in limited numbers, pursuant to special statutes, such as 10 U.S.C. 6957.

Mr. ROYBAL. What we do is train them militarily in the United States. Then we send them to their countries and after being trained with M–16 they are sure not going to be satisfied with the M–1 as an example. So they demand the M–16, and we give it to them. The M–1 is just as deadly as the M–16 if the target is right.

Admiral PEET. Yes, sir.

Mr. ROYBAL. But nevertheless we do give them that M–16 when they don't need it. We give them pursuit planes, we give them bombers.

Admiral PEET. We don't even give the M–16 promiscuously. There are many countries to which we deny M–16's.

Mr. ROYBAL. But there are many countries that you give them to.

Admiral PEET. Yes, sir; and we also sell them.

Mr. LONG. Sell the rifles for U.S. money that we loan countries to buy them with, isn't that right?

Admiral PEET. We sell them to some countries on a cash basis and, in one instance, on a credit basis.

FMS CREDIT ACCOUNTS

Mr. LONG. You have a large program in foreign military sales credit. You are selling materiel on credit; are you not?

Mr. SHRIVER. They pay it back.

Mr. LONG. You mean you hope they will pay it back someday. They haven't paid it back yet.

Admiral PEET. The record speaks for itself.

Mr. LONG. You mean they are paying it back, Garner, but they have not paid it back. There is a very great difference.

Mr. SHRIVER. They aren't in default.

Mr. PASSMAN. Would the gentleman yield? This argument could go on forever. You do yield?

Mr. ROYBAL. I yield.

Mr. PASSMAN. You could argue this from now on about what is good and what is bad, credit or cash, but I believe most of the business done in America is on credit, whether it is a department store, a food store, a corner store, banks, finance companies, financing automobiles or appliances. The country lives and thrives on credit, does it not? Is that just about the record?

Admiral PEET. I think it is, sir.

Mr. PASSMAN. This is a system under which we operate, not only domestically but on a national basis, on extending credits, and that is just a part of the system. If you are going to try to establish a record that everybody is a crook who borrows money or charges something down at a department store, we are in quite a mess. Thank you for yielding.

Mr. ROYBAL. There are how many countries then that are in arrears in their payments? There are four?

Admiral PEET. There are four.

Mr. ROYBAL. Will you tell me what countries they are again?

Admiral PEET. Ecuador, Chile.

Mr. ROYBAL. Those are Latin American countries?

Admiral PEET. Yes, also Paraguay and Tunisia.

Mr. ROYBAL. Of the four, three are Latin American countries?

Admiral PEET. Yes.

Mr. LONG. I thought you mentioned Peru as one of them before.

Admiral PEET. I didn't mention Peru.

Mr. ROYBAL. Are we making available any of these sophisticated or nonsophisticated weapons to those countries that are now in arrears?

Admiral PEET. We will check each one for the record. I don't believe we are, but I am not all that positive.

Mr. ROYBAL. I think the committee would like to know whether or not these countries are going to be receiving any of these moneys.

Admiral PEET. Let me also point out that for even these arrearages that amount to about $2 million, there is room for debate. We are in the midst of negotiating with the countries whether they are in actual arrearage.

Mr. ROYBAL. I yield to Mr. Long.

Admiral PEET. As has been pointed out, in the Tunisian case, they paid back all the principal. We are arguing whether or not they have given us enough interest.

Mr. ROYBAL. The truth of the matter is that they are in arrears whether it is just a matter of a small amount on the principal or not.

Admiral PEET. I want to be sure I am fair about it. If any department store had arrearages as small as those we are talking about, they would be ecstatic.

Mr. ROYBAL. I yield to Congressman Long and I have one other question to ask before I conclude.

FMS TO ECONOMICALLY POOR COUNTRIES

Mr. LONG. On the question of whether they have paid this money back, of course I maintain you haven't gotten it back until you have gotten it all back with interest. Whether that will happen, only time will tell. I know a little bit about economic history. There I am not as optimistic as my colleague, the chairman, is. Let me point out that here—for Latin America—we have something like $61 million for fiscal 1972 from foreign military sales credit, $59 million for fiscal 1973, and $150 million proposed for fiscal 1974.

We are selling to poor countries. Some of these countries are desperately poor. It makes you weak when you go up into the hills of Colombia, Guatemala, and see how poor these people are. We are supposed to be trying to develop their economies, to educate the people, to make them better off. And instead we are selling them military goods which they will have to pay for some day. And this military equipment does not create any productive capacity out of which that repayment can be made. Thus we are diverting resources from economic development, from education, from health.

Admiral PEET. Yes, sir.

Mr. LONG. Into military expenditures not only now but in the future, because they are going to have to pay for the goods in the long run.

Admiral PEET. Yes, sir.

Mr. LONG. In fact these countries have had a hard time even building up the productive base to repay loans that were made for economic development purposes, let alone for military purposes.

Admiral PEET. Yes, sir.

Mr. LONG. And this is a very large sum. As Mr. Roybal has pointed out, it is pretty hard to justify these loans from the standpoint of an external threat. Of course you are arguing that these countries are afraid of each other, isn't that right?

Admiral PEET. There is some of that, yes, sir.

Mr. LONG. What else are they afraid of if not each other?

Admiral PEET. Dr. Long, if I had my preference as to whether they get economic or military loans there is no question but that I would give them economic loans. However, the choice is not always ours.

Mr. LONG. The big point I want to get at is why are we giving them military loans with which to frighten each other?

Mr. VON MARBOD. Dr. Long, for fiscal year 1974 we are proposing a $150 million foreign military credit sales program for 12 Latin American nations.

Mr. LONG. Which is almost three times what it was in this current fiscal year.

LATIN AMERICAN FMS PROGRAM

Mr. VON MARBOD. This program is intended to help those countries upgrade their military equipment, much of which is of World War II vintage. The equipment is exceedingly expensive, if not impossible, to maintain. In the majority of cases, it is more economical to replace this equipment.

The major portion of the total fiscal year 1974 credit sales program for the region, $128 million—or about 85 percent of the $150 million total—is planned for five countries: Argentina, $22.5 million; Brazil, $56 million; Colombia, $15 million; Peru, $20 million; and Venezuela, $15 million.

Funds for Peru are contingent upon lifting the suspension imposed by section 3(b) of the Foreign Military Sales Act.

Mr. PASSMAN. Will you yield? I believe you have used 17 minutes of the 5 minutes.

Mr. LONG. When do we get to the point where we can ask regular questions? We are going to be here the rest of the afternoon.

Mr. PASSMAN. We are going to be here for 2 weeks on this bill. I want to be courteous.

Mr. LONG. It is very frustrating to try to get a point in the record——

Mr. PASSMAN. Each person must wait his turn.

Now, Mr. Roybal?

Mr. ROYBAL. We have a vote on the floor, Mr. Chairman.

Mr. PASSMAN. You proceed.

Mr. ROYBAL. I want a breakdown also on Spain and Portugal. Why is it they need $3.3 million and for what purpose is that amount going to be used?

Admiral PEET. We can give you a breakdown as to what it is used for. Base negotiations concerning Portugal, the Azores and Spain are involved.

[The information follows:]

MILITARY ASSISTANCE TO SPAIN AND PORTUGAL

U.S. military assistance in fiscal year 1974 is being provided to Spain as part of the quid pro quo called for under the 1970 Agreement of Friendship and Cooperation. This agreement, which provided for a total of $26 million in U.S. millitary assistance over a 5-year period, enables us to utilize important military bases and facilities in Spain until September 1975, at which time a 5-year renewal of the agreement may be negotiated. Past and current U.S. military assistance on the $26 million commitment is as follows:

	Millions
Fiscal year 1972 (actual)	$11.2
Fiscal year 1973 (actual)	9.9
Fiscal year 1974 (proposed)	3.3
Total	24.4

The balance ($1.6 million) to be provided in fiscal years 1975 and 1976, will terminate the U.S. commitment under the 1970 Agreement of Friendship and Cooperation. The $3.3 million in fiscal year 1974 is primarily to pay for aircraft

spares, vehicles, weapons, ammunition and communication equipment to permit some Spanish force modernization, and contributes to the military security assistance objective of closer Spanish association with Western security interests. The major share of equipment provided to Spain under the fiscal year 1972 and fiscal year 1973 military security assistance programs assisted in modernizing the Spanish Army and consisted primarily of tanks, APC's artillery, and related communication equipment.

The equipment and training we will provide to Portugal in fiscal year 1974, all of which is oriented toward Portugal's NATO-related mission in ASW and air defense, strengthens Portuguese ties to NATO. U.S. military assistance over the last several years helped maintain contact with the Portuguese military during a period when there was no formal agreement for basing rights in the Azores. ——— a fact which continues to make the small annual military assistance for Portugal important.

Mr. ROYBAL. Sometime I would like to be able to understand the philosophy behind the statement that if they do not buy it from us, they are going to buy it someplace else.

Admiral PEET. We can give you the history on that.

Mr. ROYBAL. I wish you would.

Admiral PEET. We are not the biggest seller in Latin America. We rate third in Latin America behind England and France. They both sell more in Latin America than we do.

Mr. ROYBAL. They have pursuit planes and others, yet they have no one to pursue. Why do they need them?

Admiral PEET. We have been very careful to make sure we do not unbalance or destabilize the situation in Latin America. The State Department controls me completely in regard to what we can sell.

Mr. PASSMAN. Could you delay just a moment?

Mr. ROYBAL. I am through.

INTERNATIONAL COOPERATION IN ARMS SALES

Mr. PASSMAN. Admiral, how many nations manufacture military equipemnt that could be sold to other nations?

Admiral PEET. A considerable number.

Mr. PASSMAN. How many?

Admiral PEET. Practically all the European countries.

Mr. PASSMAN. You are talking about 15, are you not?

Admiral PEET. Closer to 30, I would say.

Mr. PASSMAN. All right, 30.

Have you ever made an attempt to reach an agreement with these countries that manufacture military equipment that they would not sell to these underdeveloped countries military equipment?

Because I see the point very clearly, if we do not sell them equipment some other nation will sell it to them.

Admiral PEET. Yes, sir.

Mr. PASSMAN. All we are doing is giving grant aid to the Latin American countries; they in turn use their resources to buy military equipment.

I support what I thought was Mr. Roybal's position and for that matter Dr. Long's and other members of this subcommittee, that these nations are just not able to have these expensive military complexes, and unless we can get an agreement with the other nations who manufacture and sell them equipment, it simply means from here on until the end of time we will be giving them economic aid, then they take their resources and buy military aid.

There should be some way of bringing it under control. Is there any food for thought in that suggestion?

Admiral PEET. I would think that there is.

Mr. PASSMAN. Because what benefit do we get actually as a nation out of providing military equipment either on a sales or a grant-aid basis to Latin America?

Admiral PEET. We are trying to stabilize the situation. Certainly if there is no stability in a country, you are not going to make any progress.

Mr. PASSMAN. Is the military for stability within the country?

Admiral PEET. Yes.

Mr. PASSMAN. They do not need the type of airplanes we had suggested or battleships or destroyers to maintain stability, do they?

Admiral PEET. We are very careful about selling in that area.

Mr. PASSMAN. The facts are, if we do not sell them some other nation will?

Admiral PEET. That has happened before, particularly in Latin America.

Mr. PASSMAN. It is perfectly obvious if we give them economic aid, they take their resources and buy the equipment; is that true?

Admiral PEET. I can insert a detailed answere in the record.

Mr. PASSMAN. That is true?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Gentlemen, let's recess until tomorrow at 1 o'clock. The committee is adjourned.

THURSDAY, MAY 31, 1973.

Mr. PASSMAN. The committee will come to order.

Yesterday I mentioned, as I did last week, when we had the young man from the Treasury, that we had devalued the dollar by, I guess, 10 percent, in some instances more, since 1971, and that we were on the way to another crisis and I was somewhat ridiculed by him, almost directly. The handwriting was on the wall. So yesterday I mentioned to the committee that the bulletin had hit the air about the dollar having dropped to an all-time low, gold prices hit a record $113.25, the dollar nosedived to its lowest postwar rate at the Frankfurt Foreign Exchange when the Central Bank raised the discount rate, so on and so forth.

We all know there is something wrong, and pressure, personalities, lobbyists, and overselling just prevent many of the committees of Congress from facing up to their responsibility of doing something about it.

Mr. Secretary, you know as well as I do that this committee was unable to persuade a majority of Congress to cut out the aid to the so-called multinational organizations, where all the funds go out and nothing comes back and those requests skyrocketed and helped bring about this mess.

I do not know where we stand. But at least I can always point out for the record what is happening, just in hopes that somewhere along the way before it is too late, we will come to our senses. I believe I made this statement one time and had the witnesses agree: "You can drain the largest water tank in America one drop of water at a time if you just keep draining it, can you not?"

Admiral PEET. Yes.

Mr. PASSMAN. That is just what we are doing. We are two-bitting ourselves to death. There are so many programs. This one appears small and so does that one. But collectively we get into frightening expenditures, where the dollars go out and fewer of them come back.

PROTECTING OUR INVESTMENT IN ASIA

Yesterday, you may recall, Admiral, we expressed a desire to have with us, at least part of the time, Under Secretary of State for Security Assistance the Honorable Curtis W. Tarr and I welcome him here today.

If we go back to the beginning of the Vietnam conflict, or beginning with the conditions that built this into one of the longest, hottest, most expensive wars we ever had, we have to recognize that we spent $141 billion of our resources doing what all the Presidents, going back to President Eisenhower, Kennedy, Johnson, Nixon, said should be done. We sacrificed 56,000 of our precious youth in that conflict and had 308,000 casualties.

Again may I say, following the advice of all those great Presidents, all of the Secretaries of State, Under Secretaries, Secretaries of Defense, and all your great admirals and generals, we have a large investment there and unless we are willing to go that last 1 percent, then all of it will be down the drain.

If I live to be 100, I can never reconcile what the Congress did a few days ago by pulling the rug on Cambodia, because any man who is willing to face facts knows very well that every move that the President has made in connection with that conflict has been a wise move. So we did want you here to have the benefit of your thinking as we move along with the examination on the military portion of this bill, or security assistance, I believe it is captioned today.

DUTIES OF THE UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE

With the tolerance of the committee, I would like to ask the Secretary certain questions, then yield to the other members to do likewise, before I return to the policy that we have followed, and that is each member having all the time he requires to examine.

If we may, Mr. Secretary, since we did not request this of you last year, will you furnish a brief biography?

Mr. TARR. I will be happy to.

[The information follows:]

DR. CURTIS W. TARR SWORN IN AS UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE

Dr. Curtis W. Tarr of Arlington, Va., today was sworn in as Under Secretary of State for Security Assistance, a new position created this year under the Foreign Assistance Act.

In this position, Dr. Tarr will exercise the authority vested in the Secretary of State "for the continuous supervision and general direction of economic assistance and military assistance programs * * * to the end that such programs are effectively integrated both at home and abroad and the foreign policy of the United States is best served thereby." (FAA of 1961 as amended, section 622(c).) These programs included security supporting assistance (SA), military assistance (MAP), and foreign military sales (FMS). A small staff was recruited last year to assist in the carrying out of these responsibilities.

Dr. Tarr has been serving as Director of Selective Service since his appointment to that position in March of 1970.

Born September 18, 1924, in Stockton, Calif., Dr. Tarr entered Stanford University in 1942. His college education was interrupted by military service during World War II; for 18 months he was a technician in the U.S. Army on combat duty in Europe. He completed his B.A. in economics at Stanford in 1948 and continued at Harvard, earning a masters in business administration in 1950.

In 1950 Dr. Tarr became a research assistant and instructor at Harvard Graduate School of Business. He was named vice president of the Sierra Tractor & Equipment Co., in Chico, Calif., in 1952. He left that company in 1958 for graduate study at Stanford University. In 1962 he completed his Ph. D. in American history and became director of Stanford's summer session and assistant dean in its school of humanities and sciences.

Dr. Tarr assumed the presidency of Lawrence College at Appleton, Wis., in 1963. Under his leadership the college was consolidated with Milwaukee-Downer College to form Lawrence University in 1964. Dr. Tarr remained as president of Lawrence until he was appointed Assistant Secretary of the Air Force for Manpower and Reserve Affairs in June 1969. His previous experience in Government includes service as a staff member specializing in defense studies for the Second Hoover Commission in 1954–55, and as chairman of the Governor's Task Force on Local Government Finance and Organization for Wisconsin from 1967 to 1969.

Dr. Tarr holds the honorary degree of doctor of humane letters, conferred by Ripon College, Wis., in 1965 and by Grinnell College, Iowa, in 1969.

He is married to the former Elizabeth May Myers. They have two daughters, Pamela and Cynthia.

Mr. PASSMAN. Could you tell the committee just what your duties are and what your relationship is with the Defense Department concerning military assistance and sales under the MAP program?

Mr. TARR. Mr. Chairman, in our Foreign Assistance Act of 1961, as amended, the responsibilities of the Secretary of State are quite clear. The act says that the Secretary of State will determine whether there are programs in countries, and if there are programs under the act, the extent of those programs. The Secretary must make certain that these programs do not go counter to the foreign policy of the United States.

Until a short time ago, there was no organizational framework in the Department of State to make certain that the Secretary could comply fully with these requirements under the act. Moreover, the responsibility for doing so was vested in various parts of the Department. The Congress decided that it would be appropriate to establish in one office primary responsibility for the supervision of the security assistance program in the name of the Secretary. For that reason, the position of Under Secretary for Security Assistance was established in the foreign assistance legislation for fiscal year 1972.

I was appointed to the position a year ago. I have attemped to do just what the act requires. I try to determine, in concert with all of those interested agencies and bureaus of the Government whether there should be programs and, if there should be, their nature and scope.

Throughout the year, in all of the transactions that relate to security assistance, I try to determine very carefully whether the program conforms to the foreign policy of the United States.

Now, many people ask how specifically involved do you become in the program. The President has delegated to the Agency for International Development the requirements under the act that relate to supporting assistance as well as to development and technical assistance.

The President has delegated to the Department of Defense the administrative responsibilities for the MAP program and the foreign military sales program.

That means that I am not responsible on a daily basis for the administration of the act. And it also means that my relationships with

Vice Admiral Peet, who acts for the Department of Defense in the administration of his part of this program, and Mr. Nooter, in the Agency for International Development, must be very close.

We talk almost daily, some days almost hourly, on the telephone. I am frequently in the Department of Defense. Admiral Peet often is in the Department of State. Similarly, I work very closely with Mr. Nooter on supporting assistance matters.

Perhaps some specific examples would be helpful.

Vice Admiral Peet would not look to me for guidance if there were insignificant determinations, or judgments that had to be made about whether a few more dollars should go into ammunition or should go into parts for trucks. He has experts who study these problems in these countries and he comes up with decisions on his own.

On the other hand, sometimes we become involved in debates about what type of airplane is appropriate for a country, or whether there should be a sale of particular aircraft. Sometimes we become involved in whether tanks should be sold or, if we do sell them, what type of tank is appropriate. Or, whether armored personnel carriers go to a particular country. Then I am involved.

Mr. PASSMAN. Then you are charged with the direct responsibility for the security supporting assistance program as a civilian?

Mr. TARR. Yes, sir.

AIMING TOWARD SELF-SUFFICIENCY

Mr. PASSMAN. May I ask you this question, Mr. Secretary: It is my understanding, and this dates back to the beginning of the so-called foreign aid program, when U.S. foreign aid began to spread from its original concept in the so-called underdeveloped, now developing nations; the program was based on the premise that the developing nations will sooner or later become developed and be self-sufficient and make their contribution to the world of nations; is that your understanding?

Mr. TARR. Yes, in two different ways: as nations develop, they will not look to us for further grant support, but will take over the responsibility either——

Mr. PASSMAN. That was my question. A developing nation, if we had some assurance that they would and could never develop, then it would be absolutely pointless for us to be in there. We are in there, I would assume, to help underdeveloped nations start developing. We would hope that is still the goal. Is it?

Mr. TARR. It is still a hope; yes.

Mr. PASSMAN. It could be a hope, but is it the goal, to help these nations develop to where they would be self-sufficient?

Mr. TARR. Exactly.

AID ON A LOAN BASIS

Mr. PASSMAN. Upon that basis, if the nations that we refer to presently as developing nations, for instance Laos, Cambodia, South Vietnam, and Korea, to name a few, if they should be willing to accept all aid on a loan basis rather than on a grant basis, would you support that system?

Mr. TARR. I would if we thought there was a reasonable chance they could repay the loans.

Mr. PASSMAN. Who is going to make that decision, the President of the country or some Washington bureaucrat?

My question is, if the Presidents of those nations say, "We have accepted your generosity on the grant-aid basis previously, we are now willing to move in and accept your aid, both military and economic, on a concessionary loan basis," would you support that?

Mr. TARR. There are some nations in which I would be hesitant.

Mr. PASSMAN. Why?

Mr. TARR. Because the leadership in the country realizes that it will have responsibility for a limited time, but beyond that, whatever obligations it incurs become the responsibility of someone else.

Mr. PASSMAN. Is it not so that your opinion only lasts as long as you are in this position?

Mr. TARR. That is right.

Mr. PASSMAN. Off the record.

[Discussion off the record.]

Mr. PASSMAN. Back on the record.

ADMINISTRATION OF INDOCHINA RECONSTRUCTION

Now, the military assistance and sales programs are administered by the Defense Department; is that correct?

Mr. TARR. Administered by the Defense Department.

Mr. PASSMAN. By the Defense Department. The security supporting asistance which is grant-aid is administered by Dr. Hannah's shop?

Mr. TARR. That is true.

Mr. PASSMAN. Your job is to coordinate these programs through the State Department; is that correct?

Mr. TARR. That is true.

Mr. PASSMAN. Do you tell the Defense Department which countries should be funded and in what amounts?

Mr. TARR. That is true.

Mr. PASSMAN. After consultation with, I would assume, the Secretary of State and the ambassadors from those nations?

Mr. TARR. And the interested geographic bureaus in the Department of State.

Mr. PASSMAN. Now, what agency will be responsible for administering the Indochina postwar reconstruction program if we should ever have such a program?

Mr. TARR. The administration will be in the Agency for International Development.

Mr. PASSMAN. Do you present plans call for the Agency for International Development to administer the program?

Mr. TARR. Yes.

ADDITIONAL DUTIES OF THE UNDER SECRETARY FOR SECURITY ASSISTANCE

Mr. PASSMAN. Mr. Shriver, do you want to question the Secretary?

Mr. SHRIVER. Yes.

You sort of explained what your responsibilities are.

Mr. PASSMAN. My apologies, I thought he had finished. He spent 8 minutes on it. Let's pick up where you left off.

Mr. SHRIVER. Do you have any further responsibilities than those enumerated in your 8-minute dissertation?

Mr. TARR. Mr. Shriver, I have other responsibilities in the Department.

Mr. SHRIVER. That is what I meant.

Mr. TARR. Which are assigned to me by the Secretary.

On a temporary basis, I am now handling the problems that Mr. Macomber formerly handled before he went to Turkey. I am doing this only on an acting basis with the understanding that it is not a permanent arrangement. I do not know how long I will have this responsibility. From time to time, the Secretary also asks me to look at other things simply because he feels that I might have some qualifications to do them. They are usually of short duration.

The understanding that I have had with the Secretary and with the Deputy Secretary is that my responsibilities in security assistance are my primary responsibilities and they have the primary demands on my time.

INTERNATIONAL LIMITATION OF ARMS SALES

Mr. SHRIVER. Mr. Tarr, in all of the discussions between our Government, our allies and the Soviet Union, do you know of any indication or action toward eventually limiting the volume of arms sales and grants to the developing nations?

Mr. TARR. No.

Mr. SHRIVER. Has there been any conversation about this?

Mr. TARR. I know nothing of this at this point. I think that——

Mr. SHRIVER. Do you think that would be a good idea?

Mr. TARR. I think eventually it is a natural extension of our whole activity in the area of SALT, on the one hand, and the MBFR discussions on the other.

Mr. SHRIVER. We were talking here yesterday about some of the developing nations needing to put their funds into education or people programs; they are asking us to put economic assistance into those countries and using their own funds or other funds to buy U.S. or some other nation's armaments. It just seems ridiculous for them to build up unneeded forces.

Mr. TARR. Mr. Shriver, I feel very strongly that if money is not needed for armaments, it is wasted regardless of the resources of the country. There are so many things that need to be done in every country that we ought to do what we can to limit these expenditures.

Mr. SHRIVER. Maybe the discussion should not be with those developing countries, but with the powers that supply the armaments.

Mr. TARR. I think one of the difficulties of trying to carry out this kind of discussion with the Soviet Union is that obviously there are many people, many countries who are able to take it upon themselves to supply these arms. The Soviet Union, for instance, could not speak for all of the countries behind the Iron Curtain.

Mr. SHRIVER. No, I know. There are a lot of countries that participate in sales.

Admiral PEET. Also, it is very difficult for us to barter, as the Soviets do.

U.S. MILITARY ASSISTANCE PERSONNEL OVERSEAS

Mr. SHRIVER. The justifications show authorized military assistance personnel in countries in which we do not have military assistance programs, such as Japan, Denmark, Italy, Netherlands, Norway. We have

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125 U.S. military assistance personnel in Saudi Arabia where we have only a sales program. What are all those people doing?

Mr. TARR. I think that you will find that——

Mr. SHRIVER. Are they acting as sales agents for military equipment?

Mr. TARR. Not as sales agents, but they certainly are involved in some of the work that nations naturally expect from us, as a result of sales programs. I think the responsibility for the sale itself is clearly placed on the manufacturer.

Admiral PEET. May I talk to that point for a minute? When I assumed this job about a year ago, I had heard that comment. So I proceeded to audit the countries, most of them which you have mentioned, and others. I looked at it from our point of view, from the Ambassador's point of view, from the CINC's point of view, and from the individual country's point of view.

I examined this matter in detail. I found in every case, particularly those involving the mini-MAAG's in Northern Europe, that the Ambassador felt it in the best interest of the United States to maintain their presence. The four or five people stationed in these individual countries serve a very useful purpose, from a sales point of view, as well as in monitoring the use of items we have already delivered, as the Congress has charged us to do.

We talked to the officials of individual countries at very high levels. They all insisted that maintaining these people in these countries was still a good idea.

The CINC, who needs representation in each of these countries——

Mr. SHRIVER. Instead of using the jargon of the Penatgon, what do you refer to as CINC?

Admiral PEET. "CINC" refers to the Commander in Chief, which would be General Goodpaster in the European area, and Admiral Gayler in the Pacific area for example, who are responsible for our military representation, and for looking after our military interests.

Mr. SHRIVER. Thank you.

Admiral PEET. Then, of course, our own interest in the continuing presence of such groups is overwhelming. I have difficulty finding objection on the part of anybody who has any degree of responsibility in these countries.

Mr. SHRIVER. I think that needs to be clarified; that is why I asked the question.

Admiral PEET. Yes, sir.

Mr. SHRIVER. I think I have used up my 5 minutes, though, Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Shriver.

DEBATE ON COMMITTEE FIVE-MINUTE RULE

We have returned to the 5-minute rule, Dr. Long.

Mr. LONG. Are we ever going to get away from the 5-minute rule? I do not want to ask any questions. I have had my questions under the 5-minute rule. I want to be in a position of asking questions without having the Chairman pounce on me whenever I make a good point.

Mr. PASSMAN. Let's straighten the record out.

We were under the 5-minute rule yesterday; when we yielded to you 5 minutes, you used 12.

Mr. LONG. Yes.

Mr. PASSMAN. Then I yielded to the gentleman from California and you used 17 minutes.

Mr. LONG. I am not objecting——

Mr. PASSMAN. I would like to yield you 5 minutes at this time to question Secretary Tarr.

Mr. LONG. Could you tell me when I will be allowed to speak? I do not want to ask questions now.

Mr. PASSMAN. I should say we all have to be patient but we will get around to everybody. We returned this morning to the 5-minute rule because of Mr. Tarr.

Mr. LONG. So I will not get a chance to ask any questions this afternoon except under the 5-minute rule, is that right?

Mr. PASSMAN. I don't know how long we will run today.

Mr. LONG. I am willing to wait.

Mr. PASSMAN. We have to learn not to be impatient.

Mr. LONG. I have a lot in common with the chairman.

Mr. PASSMAN. We brought the Under Secretary in, and as a matter of courtesy, since he was not here yesterday, we thought we would return to the 5-minute rule.

Mr. LONG. Perfectly all right.

Mr. PASSMAN. Since you have no questions now, I yield to Mr. Miller.

ASSISTANCE HELPS U.S. BALANCE OF PAYMENTS

Mr. MILLER. I just had one question, Mr. Chairman. It is concerning the testimony yesterday where we state that these credits not only offer friendly and allied nations a direct source of funds to strengthen their defensive capabilities, but also provide a means of enhancing U.S. exports and improving the U.S. balance-of-payments position.

I am wondering, while the Secretary is here, along with the Admiral, if we could verify that. If we are going to furnish the funds that will be producing the material, whatever it may be, that will be shipped to another nation, how would that improve our U.S. balance-of-payments position?

Mr. TARR. If I may attempt an answer to that, I would like to start from a little different point of view and say that the primary reason for our doing this is not to enhance our balance of payments; our primary reason for doing this is to provide our friends and allies with the material that they think they need to provide for their security insofar as that is in our interest.

Now the way in which it does have an effect on the balance of payments is that when we provide funds for credit, the material is purchased in this country and it is exported abroad. Immediately there is no effect. Ultimately there is, when the loan is repaid. When the loan is repaid, then dollars in the hand of foreign nations are brought back to the United States.

Mr. MILLER. What is the length of time of the loans?

Mr. TARR. The maximum at the present time is 10 years.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you.

Of course, the same answer would apply to any of the lending agencies, whether it is Export-Import Bank or your Development Loan Fund or the new proposal where everything switches over to a loan rather than a grant basis; if and when these payments are finally paid,

it will affect the balance-of-payments situation, whereas on a grant basis there is no way that it can help, is that right?

Mr. TARR. That is right.

Admiral PEET. But it does not hurt it.

Mr. PASSMAN. What?

Admiral PEET. It does not hurt it either.

Mr. PASSMAN. Of course it hurts it; if you look at the public debt, we are pricing ourselves out of the world market.

Admiral PEET. I was referring to the fact that the dollars do not go abroad, they are spent in the United States.

Mr. PASSMAN. But when the ships go to sea loaded with our goods, the bills go down to the U.S. Treasury, you understand.

Admiral PEET. Yes, sir.

Mr. PASSMAN. What you do is create inflation, run the public debt up, so it is bound to have its effect. Otherwise, you could just triple foreign aid and become more prosperous and then triple it again. So we killed your argument 25 years ago and they agreed not to use it any more. It is all right, you have a right to reinstate it. The more you give away, the more prosperous we would be if your theory held up. But it does not do it.

Let's take a little recess and vote.

[Recess.]

Mr. PASSMAN. The committee will come to order. Mr. Bevill?

Mr. BEVILL. Thank you, Mr. Chairman.

COORDINATION OF AID

Mr. Secretary, I believe your office coordinates the efforts of the Agency for International Development and Admiral Peet's agency coordinates the Defense Security Assistance Agency?

Mr. TARR. I do with the Agency for International Development insofar as it is a supporting assistance program. But most of their activities are aside from security assistance.

Mr. BEVILL. I see. It is only that portion of the AID then that deals with security?

Mr. TARR. It is security assistance that I am concerned with.

Mr. BEVILL. Which would be very small?

Mr. TARR. Well, this year we are asking for only $100 million in supporting assistance. We are not sure whether the Indochina program will be enacted. If it is, that will add a considerable additional amount.

Mr. BEVILL. Is there someone in the State Department that does coordinate the balance of the AID program? AID, I guess, is an agency of the State Department.

Mr. TARR. Yes, it is. For the Secretary, the Under Secretary for Economic Affairs is concerned with the other programs of the Agency for International Development.

ROLE OF THE INTERNATIONAL BANKS

Mr. BEVILL. Is anyone in the State Department coordinating the efforts of these various international banks and international associations? We have six, I believe.

Mr. TARR. Yes, the Under Secretary for Economic Affairs, Mr. Casey.

Mr. BEVILL. Now the chairman mentioned the Export-Import Bank a moment ago. Now this Bank has actually played a very important role in reducing our balance-of-trade deficit, has it not?

Mr. TARR. Yes, sir.

Mr. BEVILL. In financing foreign sales.

Is there any effort in the State Department to try to direct more of this aid over to the Export Bank in the form of letting them borrow the money or getting the goods financed, rather than giving them to them?

Mr. TARR. That is the responsibility of Mr. Casey, although our areas in this respect do overlap.

Now, there are some limitations on the Export-Import Bank, on how much they can lend. But try to work with them on some of these matters, so that they need not——

Mr. BEVILL. But there is more effort being concentrated in that direction, in trying to get us away from this business of giving away, handing out checks and goods over the world?

Mr. TARR. Yes. It definitely is the policy of this administration to reduce the grant part of this program as quickly as we can.

Admiral PEET. I might speak to a point there.

We deal very closely, all of us, with the Export-Import Bank. It makes loans primarily to the developed countries. In providing credit pursuant to the Foreign Military Sales Act. we deal with the developing or the undeveloped countries.

Mr. BEVILL. I see.

Admiral PEET. Currently, we are involved with the Export-Import Bank in working out loans for Iran. General Toufanian, Vice Minister of War, is coming over here to be my guest.

Mr. BEVILL. Using that as an example, Admiral, if a loan is made to Iran by the Export-Import Bank, would the coordinating official there in the State Department be aware of that loan?

Mr. TARR. Yes.

Admiral PEET. We are aware of it. It is a direct deal between Iran and the Export-Import Bank, under the cognizance of Chairman Kearns.

Mr. TARR. But we necessarily have to take all of these factors into account.

Mr. BEVILL. Yes; but does the right hand know what the left hand is doing over there?

Mr. TARR. We certainly hope so.

Mr. BEVILL. I think it is commendable that you are coordinating these, and that you are headed in that direction, because as you can see, it is becoming more and more urgent as far as the taxpayers of this Nation are concerned.

Mr. TARR. No question about it.

Admiral PEET. We work with them during the budget planning stage in determining how much they should budget for loans to countries which participate in the military sales program.

Mr. TARR. One of the things we are trying to do more of, even before we are able to terminate all of our military assistance support,

which is grant support, we are trying to bring these countries along on a loan basis.

For instance, we did it last year with Turkey. We still give grant assistance to Turkey, but increasingly we are asking Turkey to borrow money to pay for these things. Increasingly we are asking the Koreans to borrow money to pay for its military needs. The Republic of China is now dependent entirely on its sales program.

Mr. BEVILL. Has my time expired, Mr. Chairman?

LOAN OBLIGATIONS OF SUCCEEDING GOVERNMENTS

Mr. PASSMAN. Thank you, Mr. Bevill.

I would assume that the President of the United States will continue to function as President, meeting with the leaders, making commitments, incurring obligations, under our system they will be respected until the end of time unless they are, by legislation, reversed; is that not the way we operate? Is that not the way all governments of the world operate, whether it is a dictator or an elected President, that he assumes the responsibility under oath of running the country and any obligation he incurs carries over to his successor?

Therefore, if the Presidents of the developing countries say, "You have been very generous, we are now willing to move over to a loan basis," why should you prejudge whether their successors will like or dislike that arrangement? It is not important whether they like or dislike it, as long as they got value received for it.

Whether you know it or not, the foreign aid bill is in trouble this year, very serious trouble.

On my opinion, if you are going to have a foreign aid program, it would be much better to place the U.S. assistance on a loan basis rather than just provide outright grants.

MILITARY ASSISTANCE FOR LATIN AMERICA

Yesterday we were discussing, Admiral, military assistance for the Latin American countries.

Admiral PEET. Yes, sir.

Mr. PASSMAN. I think we are all greatly worried about the situation that we find ourselves in. I think there are some 16 recipient nations of our military assistance program in Latin America; is that the correct number?

Admiral PEET. Yes, sir.

Mr. PASSMAN. These nations are sovereign nations. We cannot tell these nations how they are to dispose of their own resources, or what disposition they make of their foreign exchange.

I guess we woud have to accept that as a fact, would we not?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Is it just as true that if we do not sell them military equipment, that they are going to buy it from other nations?

Admiral PEET. The record shows that to be true, sir.

Mr. PASSMAN. Now, of course, that is frustrating, but the facts are, as we established yesterday, we give them economic grant aid, by the billions of dollars which releases to them their resources and foreign exchange to buy military equipment and pay cash where they want to; is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Now, could you provide for the record if you could. for a 10-year period, No. 1, our military sales by year—amounts now, not items.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Let's say U.S. military assistance by year, whether it is grant or sales and by country.

Admiral PEET. We can do that.

(The information follows:)

VALUE OF FOREIGN MILITARY ASSISTANCE/FOREIGN MILITARY SALES TO SELECTED LATIN AMERICAN COUNTRIES 1950–72 (U.S. ONLY)

[In millions of U.S. dollars]

Recipient country	1950–69	1970	1971	1972	Cumulative total 1950–72	Cumulative total Including value of undelivered programs
Argentina	142,494	5,327	26,123	27,105	201,048	47,267
Bolivia	23,109	1,212	1,964	3,703	29,988	3,088
Brazil	319,636	3,330	32,540	42,008	397,515	76,589
Chile	135,282	3,221	8,903	13,540	160,946	18,037
Colombia	101,194	2,876	8,055	8,566	120,691	12,554
Costa Rica	2,731			35	2,766	21
Dominican Republic	25,456	1,932	1,011	926	29,326	1,300
Ecuador	45,006	1,890	581	4	47,483	589
El Salvador	7,267	600	323	264	8,453	125
Guatemala	18,749	1,323	12,639	3,056	35,767	7,577
Honduras	8,601	421	568	565	10,154	193
Jamaica	1,123	8	9	2	1,142	4
Mexico	13,599	104	817	295	14,814	458
Nicaragua	14,068	1,026	1,643	905	17,643	881
Panama	3,180	857	1,019	529	5,585	934
Paraguay	9,183	676	1,176	769	11,804	731
Peru	136,662	2,815	2,030	2,179	143,686	3,188
Trinidad-Tobago		85			85	
Uruguay	43,543	1,664	6,409	2,870	54,485	6,368
Venezuela	118,010	1,506	9,397	51,083	179,995	61,299
Total	1,168,893	30,873	115,207	158,404	1,473,376	241,203

Note: Totals may not add due to rounding.

REQUEST FOR MILITARY SALES AND ASSISTANCE TOTALS

Mr. PASSMAN. Do likewise for military sales and assistance from the other nations of the world for the same 10 years. Then the amount of economic aid, for the same 19 nations for the 10 years.

Now that is going to be quite an assignment.

Admiral PEET. Yes, sir.

Mr. PASSMAN. We want to include all spigots. If you can do that, that will give us information by which we could intelligently arrive at some conclusion as to what amount we should provide for Latin America.

[The information was provided to the committee and a portion of it follows:]

VALUE OF ECONOMIC AID TO SELECTED LATIN AMERICAN COUNTRIES 1962–72

[In millions of dollars]

	1962–65	1966	1967	1968	1969	1970	1971	1972	1962–72
Argentina	200.3	35.7	1.6	43.7	59.5	23.3	39.0	44.7	447.8
Bolivia	195.6	37.3	29.3	18.6	29.7	8.0	11.7	60.0	390.2
Brazil	960.5	345.9	270.0	347.3	57.1	217.2	192.6	322.3	2,712.9
Chile	512.1	111.4	238.1	96.3	80.3	26.3	8.6	9.0	1,082.1
Colombia	363.5	105.0	136.4	105.9	130.7	144.4	102.9	134.7	1,223.5
Costa Rica	55.9	14.8	15.0	11.5	18.5	20.9	8.4	3.9	148.9
Dominican Republic	173.1	108.7	58.8	64.5	28.5	19.8	28.3	29.8	511.5
Ecuador	125.0	28.7	8.4	13.7	12.0	28.8	24.9	12.5	254.0
El Salvador	78.2	9.1	4.5	9.4	13.9	12.6	5.7	8.9	142.3
Guatemala	49.8	9.0	15.9	17.5	79.1	32.2	19.6	16.6	239.7
Honduras	33.0	14.0	10.3	14.3	4.3	8.2	7.4	7.3	98.8
Jamaica	29.3	6.7	5.2	8.5	17.2	9.1	24.0	22.8	122.8
Mexico	291.1	32.9	100.3	79.4	14.7	36.5	32.4	52.1	639.4
Nicaragua	50.7	20.3	12.2	30.6	2.4	3.2	14.3	4.8	138.5
Panama	84.3	14.4	36.5	20.8	17.4	16.0	19.6	63.9	272.9
Paraguay	34.0	14.8	5.0	6.3	16.5	8.1	12.6	4.9	102.2
Peru	217.2	42.5	33.0	18.5	22.9	16.9	19.5	75.3	445.8
Uruguay	34.1	6.8	3.5	36.0	4.0	19.4	6.5	10.1	120.4
Venezuela	186.8	9.2	33.6	66.2	4.5	16.2	14.7	43.8	375.0
Total									9,468.7

Mr. PASSMAN. There just seems to be some type of feeling in the Congress that everything should go to Latin America and never deny them anything they ask for. But with that chart, then we would be able to maybe arrive at some conclusion later.

UTILIZATION OF PUBLIC LAW 480 FUNDS

Admiral, I believe under section 104(c) of Public Law 480, you are able to utilize the local currencies for common defense purposes.

Adimral PEET. Yes, sir, there is a provision that permits us to do so.

Mr. PASSMAN. Are you exercising your right under that provision to utilize these funds?

Admiral PEET. In a few cases, we are: Korea is an example.

Mr. PASSMAN. Then the amount is limited, is it not?

Admiral PEET. It is an AID-administered program.

Mr. PASSMAN. I know, but it still can be used in the military, can it not?

Admiral PEET. Yes; it can, for budget support, and it has been in Korea.

Mr. PASSMAN. We know that, but that is another part that does not show up on your request.

Admiral PEET. You are absolutely right.

Mr. PASSMAN. Is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Since you utilize it, and it is in your shop to be utilized, we would like to know the amount if we could.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Do you have it, Mr. Comptroller?

Mr. VON MARBOD. No, sir, I do not.

Admiral PEET. I do not think we have that right here. We will provide it for the record if we may, sir.

Mr. PASSMAN. All right.

I wish, if you would, provide for the record a list showing each country and the amount under this section.

[The information follows:]

LOCAL CURRENCY USES UNDER SECTION 104c OF PUBLIC LAW 480

Up until 1971, Public Law 480 sales agreements signed with Korea provided for grants of a portion of won proceeds for military budget support under section 104(c) of the act. Agreements signed with Korea in 1972–73, however, do not provide for any 104(c) grants nor is it anticipated that such grants will be included in any future Public Law 480 sales agreements with Korea. Only two countries—Cambodia and Vietnam—now receive 104(c) grants. Public Law 480 sales agreements signed with Cambodia in fiscal year 1973 provide for grants of up to the equivalent of $20.6 million; those with Vietnam provide for $142.8 million equivalent.

Mr. PASSMAN. The facts are, this so-called excess currency is running out, is it not?

Admiral PEET. Yes, sir, the Public Law 480 local currency is dwindling fast; there is not much left.

Mr. PASSMAN. I believe at one time we had excess currency in Thailand, did we not?

Admiral PEET. I believe so, sir.

CONTINUED CONCERN FOR THE DOLLAR

Mr. PASSMAN. At this time we are borrowing money from Thailand. We borrowed $100 million from them. It is due on July 2. I am just wondering whether we are going to be able to pay it or whether we will be able to get them to extend it. Do you know of that?

Mr. TARR. No, I do not.

Mr. PASSMAN. It was a bad policy and fortunately this administration recognized that it was a bad policy and stopped it. After all, we have $80 billion floating around the world that everybody is running from.

As I said yesterday and I repeated this morning, the dollar dropped to its all-time low, and any person that knows anything about economics, and the professor here certainly has a great knowledge of it, could detect 10 days ago that we were headed for this fall. But the Assistant Secretary of the Treasury, who is determined to give away our money on a one-way street through these multilateral organizations argued with me. He even suggested that I was wrong about the dollar. But the dollar sure took a spanking yesterday.

If we do not cut out this monkey business, it is going to keep on taking a spanking.

LOCAL CURRENCY DEPOSIT REQUIREMENTS

Mr. PASSMAN. In section 514 of the Foreign Assistance Act, recipients of military assistance or excess defense articles are required to deposit in local currency an amount equal to 10 percent of the value of such assistance for use by the United States to pay its cost in that country. Is that still in effect?

Admiral PEET. Yes, sir.

Mr. PASSMAN. What if there is no excess local currencies to deposit? Then the law is not effective, is it?

Admiral PEET. Sir, the law is designed to generate sufficient U.S.-owned local currency to meet all our official costs in a given country. We are not asking the host country to deposit excess currencies. The concept and intent of the law is to avoid spending U.S. dollars to purchase host country currency in order to pay our official costs in country. Where the United States has sufficient U.S.-owned local currency—that is, local currency excess to our needs, the law provides for a waiver of the deposit requirement which the President can exercise. Although collections have been slower than we would like, the law has been effective in terms of its purpose.

Mr. PASSMAN. As we said, it looks like we are just wasting a lot of ink printing that because we are down now to where you just don't have these excess currencies, do you?

Mr. TARR. I misunderstood what you said, Mr. Chairman. My understanding is that if we need the money, if we have things that need to be paid for in that country, then we ask for 10 percent of the value of what is transferred to be placed on deposit.

Mr. PASSMAN. Then you would have to set 10 percent of your allocation aside?

Mr. TARR. If we do not have enough money to pay our bills in that country we must set aside 10 percent.

Mr. PASSMAN. Of your cash aside, because if there are no excess currencies, there is no way you can set it aside. How can you use local currencies that you don't have?

Admiral PEET. We gain the currencies by the 10-percent deposit requirement.

Mr. PASSMAN. Let me put it this way then. This would be applicable whether it is dollars or so-called local currency.

Mr. TARR. Mr. Chairman, may I give you an example of this the way I understand it to work. In Indonesia we take so much money to operate our mission there. We do not have enough local currency generated by Public Law 480 on sales to pay for all of our local expenditures.

Mr. PASSMAN. I know that.

Mr. TARR. Therefore, we charge the Indonesians 10 percent of our grant program, which they must put on deposit for our use in that country.

Mr. PASSMAN. Whether or not you have excess currency rather than them taking it out of their foreign exchange account, they provide local currency.

Mr. TARR. Exactly.

Mr. PASSMAN. If they run out, all they have to do is print some more.

Mr. TARR. That is right.

Mr. PASSMAN. It is in effect requiring a 10-percent payment on the grant military aid, but rather than accepting it in cash you accept it in local currency.

Admiral PEET. Mr. Chairman, we keep a detailed account of these agreements country by country. If you would like, I can put in the record the status of these agreements to reflect those countries with which we have agreements, those which we have waived through Presidential determination, those which have been exempted as excess currency countries, and those excluded as base rights countries. As you

know, Cambodia, Laos, and Vietnam are specifically excluded by statute.

[The information follows:]

SECTION 514—COUNTRY AGREEMENTS

AGREEMENTS CONCLUDED

Afghanistan	Guatemala	Nigeria
Argentina	Honduras	Panama
Austria [1]	Iran	Paraguay
Bolivia	Jordan	Peru
Brazil	Korea	Portugal
China	Lebanon	Saudi Arabia
Chile	Liberia	Senegal
Colombia	Malaysia	Uruguay
Dominican Republic	Mali	Venezuela
El Salvador	Mexico	Zaire
Finland	Nepal	
Ghana	Nicaragua	

PRESIDENTIAL WAIVER UNDER SECTION 614

Philippines	Thailand

EXCESS CURRENCY WAIVER—SECTION 514(b)

Ceylon	Morocco	Tunisia
India	Pakistan	Turkey [2]
Indonesia		

BASE RIGHTS EXCLUSION—SECTION 514(c)(1)

Ethiopia	Portugal (limited to Azores package)	Spain

EXEMPTIONS—SECTION 514(C)(2)

Cambodia	Laos	Vietnam

[1] Unilateral agreement concluded.
[2] Expires 1 July 1973.

Mr. PASSMAN. Why is the Administration asking that this legislation be repealed?

Mr. TARR. Can I answer off the record?

[Discussion off the record.]

ARMS SALES GENERATE INFLUENCE

Mr. PASSMAN. I think all of us are working and praying that we may have a world of peace, where we can use much of our time in the pursuit of happiness. How can we really move in that direction if we are helping to arm almost every nation on the face of the Earth? How can you go into a small nation, whether it is Latin America or Africa, train them in the use of this equipment, and after you get them trained it is perfectly obvious they then want the equipment, don't they?

Admiral PEET. It generally follows.

Mr. PASSMAN. What is the answer to this, Mr. Secretary?

Mr. TARR. There are not any easy answers to that question. I think, however, that together with their natural inclination to acquire armaments, we hope to continue to have some influence over the way in which they use them, and the purposes for which they might potentially employ them.

We know that our position of not doing anything for these countries is not necessarily a stabilizing influence.

Mr. PASSMAN. Do you know of any instance where we have ever had any influence? We talk about having influence, but when the chips are down they do whatever they please, don't they?

[Discussion off the record.]

DETERMINATION OF LATIN AMERICAN SECURITY NEEDS

Mr. PASSMAN. How can we determine what part of the equipment that we give on a grant-aid basis to Latin America is actually needed for internal security? That is one of the arguments in favor of grant aid, isn't it, Admiral?

Admiral PEET. Yes, sir, that is our intent.

Mr. PASSMAN. What equipment do they need for internal security and what are they buying? Are we giving them, in addition to what is needed, equipment that is absolutely not essential for internal security?

Admiral PEET. There is a fine line to be drawn, but the range of some equipments precludes their use for invading other neighboring countries.

Mr. PASSMAN. Aren't we furnishing small destroyers and a lot of other equipment to some of these nations that has nothing whatsoever to do with their internal security?

Admiral PEET. Yes, sir.

ARMS CONTROL FOR DEVELOPING NATIONS

Mr. PASSMAN. It looks to me like the answer would be—and some day we are going to have to explore it—to talk to other nations that furnish or sell arms and see if we can't reach an agreement to cool this thing down. Selling arms is built into our free-enterprise system. A manufacturer makes just as much profit, if not more, from selling arms as selling refrigerators. They have got literally thousands of people keeping this thing going. If you have some way of taking the profit out of it, you may make a lot of progress, you understand, in pulling a lot of these people away from these advance posts trying to sell military equipment. Isn't that what we are actually doing in almost all of these countries that are interested in buying military equipment? The manufacturers have salesmen there, don't they?

Admiral PEET. Yes, they do. The ships are, however, a different proposition, unrelated to the other examples.

Mr. PASSMAN. You and I both know, and I wouldn't cast any reflection on the military, but when they need six of something they buy a dozen to make sure they don't run out, and I imagine that same thing is true all over the world. I know something about surplus. I used to handle them when I was in the Navy. Somewhere along the way if we don't get this thing cooled down, it just simply means that all of these billions of dollars given in economic aid to build them up is down the drain. I wonder if any thought has ever been given to this. We talk about arms control with Russia. How about arms control with all the developing nations? I think it would be worth exploring.

REDUCTION OF MAAGS

Under section 512 of the Foreign Assistance Act in 1961, as amended, there is a provision requiring a reduction of the military assistance advisory groups, MAAG, and military missions by at least 15 percent by September 1972. Admiral, could you tell the committee if you have accomplished or complied with this section and what effect this reduction has had on the supervision of the various military assistance programs in foreign countries?

Admiral PEET. Yes, sir; we have complied with that provision. In fact, we did better than the 15 percent. We are in the neighborhood of about a 19-percent reduction in our authorized levels.

Mr. PASSMAN. That is average across the board?

Admiral PEET. Yes, sir.

COMPLIANCE WITH LIMITATIONS ON SALES TO GREECE

Mr. PASSMAN. Under section 620(V) of the Foreign Assistance Act of 1961 as amended, there is a provision which limits the aggregate amount of assistance furnished to Greece under the Foreign Assistance Act and sales made to Greece under the Foreign Military Sales Act in any fiscal year to not to exceed the aggregate amount expended for such assistance in fiscal year 1971. Have you been able to comply with that and still maintain a reasonable, balanced program?

Admiral PEET. Yes, sir, we have and can give you the status for the record if you would like. I think the figure is roughly $70.1 million and we are close to it.

Mr. PASSMAN. I assume you expect to continue to comply with it in 1973.

Admiral PEET. Yes, sir, absolutely. It is certainly my intent to do that.

Mr. PASSMAN. What will be the effect on the operation of the program with this in effect? Will it be satisfactory?

Admiral PEET. Speaking to Greece now, Mr. Chairman?

Mr. PASSMAN. I believe this provision applies purely to Greece.

Admiral PEET. Yes, sir, it does. As you know Greece was zeroed out as far as any grant assistance in the 1974 program is concerned. With respect to equipment, their's is totally a sales program. We hope, however, to continue some grant training.

Mr. PASSMAN. I don't think Greece as such was ever placed in a developed country category, was it? It is one of the very old nations.

Admiral PEET. Our major undertaking with Greece, Mr. Chairman, is the $65 million credit sales program we propose for fiscal year 1974 to fund the F–4's that they ordered from us a year or so ago.

Mr. PASSMAN. It is rather odd and amusing that we take countries, some of them 2,000 or 2,500 years old and still call them developing countries. Our imagination really takes us far afield. As I have often said, I believe the Constitution now is 185 years old, isn't it?

Admiral PEET. Yes, sir.

Mr. PASSMAN. And at the time it was adopted we were a primative, underdeveloped Nation of 3 million. We developed on our own because

of that great political document the Founding Fathers gave us provided freedom which developed incentive and from incentive developed initiative, and by that we became the greatest, the freest, the strongest, the wealthiest, the quickest of any nation in recorded history. I believe when you do for foreign nations what they could do for themselves they become complacent and they just never will develop. It is just like a spoiled child. While we were underdeveloped some of these old nations were considered developed, and it looks like we are becoming underdeveloped while we help the so-called underdeveloped nations to develop. While they become developed and we become underdeveloped I wonder if they will help us when we become underdeveloped?

Admiral PEET. Our definition of "developed," as you well know, is based purely on economic factors.

Mr. PASSMAN. The committee stands adjourned until June 5 at 1 o'clock.

Mr. LONG. I object for the record. I want my objection put in the record that we were not given adequate time to complete the questioning.

TUESDAY, JUNE 5, 1973.

EMPHASIZING NEED TO CONTROL THE DOLLAR

Mr. PASSMAN. The committee will come to order.

I wish I could develop a new technique on how to persuade people to my way of thinking. I mentioned about 10 days ago I had the Assistant Secretary of the Treasury here. He was defending some of the multilateral organizations. I mentioned how we had so consistently been outsmarted in the international markets. We were discussing, in connection with the Asian Development Bank, that the Japanese have in their possession over 20 billion excess U.S. dollars and how the Japanese were so very clever in outsmarting us that even though they had these surplus dollars, when they got ready to buy the 747 airplanes, rather than pay cash, they bought them on terms from the Export-

Import Bank. The dollar now has been depreciated by 35 percent against the Japanese yen so they pay us back with these depreciated dollars.

I said within a matter of days there is going to be a tremendous slump in the dollar. I think he said he could not imagine me suggesting that the dollar was in more trouble. Two days later the dollar nosedived to where it has reached a frightening all-time low in all the European markets, is that not correct, Mr. Secretary?

Mr. TARR. Correct.

Mr. PASSMAN. When are we going to come to our senses and stop letting the very people who are contributing tidbits to the multilateral organizations manipulate the United States and build up tremendous dollar reserves, not of their own choosing, but the very fact that they cannot refuse to take dollars for the merchandise.

So it looks to me like the work of this committee is cut out. I hope somewhere along the way that there can be a meeting of the minds that the time has come to have a tight bill, and to put the program on a loan basis. If there is any money going to be paid back, let it be paid back into the U.S. Treasury, not back into some international organization, as the present law calls for.

Mr. Shriver?

Mr. SHRIVER. Thank you, Mr. Chairman.

ROLE OF SECURITY ASSISTANCE

Mr. Tarr, would you discuss at some length the role security assistance plays in the implementation of the Nixon doctrine? Or put it in the record. That would save some time perhaps.

Mr. TARR. I would be happy to write up a statement for the record.

Mr. SHRIVER. Very well.

[The information follows:]

Security Assistance and the Nixon Doctrine

The best way of answering the question of the relationship between Security Assistance and the Nixon Doctrine is to quote directly from the President. In his report of February 18, 1970, the President set forth his views as follows:

..."The world has dramatically changed since the days of the Marshall Plan. We deal now with a world of stronger allies, a community of independent developing nations, and a Communist world still hostile but now divided.

"Others now have the ability and responsibility to deal with local disputes which once might have required our intervention. Our contribution and success will depend not on the frequency of our involvement in the affairs of others, but on the stamina of our policies. This is the approach which will best encourage other nations to do their part, and will most genuinely enlist the support of the American people.

"This is the message of the doctrine I announced at Guam - the 'Nixon Doctrine.' Its central thesis is that the United States will participate in the defense and development of allies and friends, but that America cannot - and will not - conceive all the plans, design all the programs, execute all the decisions and undertake all the defense of the free nations of the world. We will help where it makes a real difference and is considered in our interest."...

p.6

..."Our important interests and those of our friends are still threatened by those nations which would exploit change and which proclaim hostility to the United States as one of the fundamental tenets of their policies. We do not assume that these nations will always remain hostile, and will work toward improved relationships wherever possible. But we will not underestimate any threat to us or our allies, nor lightly base our present policies on untested assumptions about the future.

"At the beginning of my trip last summer through Asia, I described at Guam the principles that underlie our cooperative approach to the defense of our common interests. In my speech on November 3, I summarized key elements of this approach:

" - 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.

"This approach requires our commitment to helping our partners develop their own strength. In doing so, we must strike a careful balance. If we do too little to help them - and erode their belief in our commitments - they may lose the necessary will to conduct their own self-defense or become disheartened about prospects of development. Yet, if we do too much, and American forces do what local forces can and should be doing, we promote dependence rather than independence.

"In providing for a more responsible role for Asian nations in their own defense, the Nixon Doctrine means not only a more effective use of common resources, but also an American policy which can best be sustained over the long run"...
pp 55-56

In his report of May 3, 1972, the President set forth the following views:

..."When I entered office we faced a situation unique in American post-war experience. An era was behind us. In the immediate aftermath of World War II challenges to our security could be met with the assurance that our strategic nuclear position was overwhelmingly superior. By January

1969, the United States no longer enjoyed this strategic preponderance.

"The Soviet Union had embarked on a formidable expansion of its nuclear arsenal. We could chart with some certainty when the Soviet Union would surpass us in numbers of intercontinental and submarine launched ballistic missiles; we could also project when they could close the technological gap in strategic weapons. Our own offensive building program had virtually ceased, as we had shifted our effort to qualitative improvements. We had developed a concept for ballistic missile defense of our territory, but had no active deployment. We faced a negotiation on strategic arms controls, but had only begun to analyze the relationship to strategic weapons decisions.

"At the same time, our spending for defense had grown substantially. Almost all the increases, however, had been absorbed by the war in Vietnam. The costs of new weapons were escalating, as were the expenses of maintaining the men of our armed forces. In addition, we were bearing burdens abroad for the common defense that seemed out of proportion to those borne by our allies. More than a million Americans were stationed overseas, and our reserves at home were minimal.

"Yet, I found that our strategic doctrine called for an American capability to fight in two major theaters simultaneously. The confrontation atmosphere of the Cold War persisted in both Europe and Asia. But the international environment after 25 years suggested new opportunities for diplomacy and, accordingly, for adjustments in military planning. The rigidity of the confrontation between East and West was easing, and the conduct of nations could no longer be viewed in the simple bipolar context of military blocs.

"The need for an urgent re-examination of our national security policy and programs was obvious. There were four overriding questions:

" - What doctrine was appropriate for our strategic forces in an era when the threat of massive retaliation alone was no longer credible in all circumstances and decisive nuclear superiority was probably unattainable?

" - What should the interrelationship be between the programs required for maintaining our strength and our proposals for limiting strategic arms through negotiations?

" - How could we simultaneously satisfy pressing domestic needs, meet our responsibilities in Vietnam, and maintain the capabilities of our other forces in a period when non-nuclear challenges were an important dimension of the security problem?

" - How could we, in coordination with our allies, strengthen our mutual defense in a manner that retained their confidence in our reliability but permitted them to play a more prominent role?"

" Early in my first term, I made a series of decisions that resulted in a new concept of national security, reflected in the Nixon Doctrine."... pp.178-179

"Obviously, American forces alone cannot balance the strong capabilities of potential adversaries. For this reason our planning udner the Nixon Doctrine has emphasized the strengthening of mutual defense by bolstering allied capabilities.

"In NATO, it is often forgotten that our allies provide nearly 90 percent of ground forces and the majority of alliance air and naval craft. American ground forces are concentrated in Germany where they constitute over one-fourth of the forces in this vital area. Along with our allies we are taking additional measures to strengthen NATO forces. Expenditures by individual members for force modernization have increased for the third consecutive year, and under the billion dollar five-year European Defense Improvement Program, NATO communications, anti-armor and air defense capabilities continue to improve. United States capabilities are also being improved, and our ground forces are being strengthened by selectively transferring men from support to combat units.

"Programs in Asia too have achieved remarkable success in strengthening allied capabilities. In Southeast Asia, progress in Vietnamization was demonstrated by the effective Vietnamese defense on the ground against all-out invasion. In Northeast Asia, South Korean forces are growing in effectiveness as a result of our joint program for modernization, and the Korean economy is now able to support more of the recurring costs of maintaining these forces without hampering normal economic growth.

"Our Asian allies are also becoming more self-sufficient in dealing with subversion and guerrilla warfare, which remain a potent threat. As our friends develop greater local and regional military sufficiency under the Nixon Doctrine the need for our direct involvement diminishes. In the meantime, the stabilizing presence of our forces in the area enhances the wider framework of security and gives encouragement to further allied efforts to develop their capacity for self-defense.

"In the current delicate international balance of forces, I believe our general purpose forces are now at the minimum level consistent with our safety and our interests. However, as we assess our requirements for the late 1970's and beyond, we will not let the perceptions and experiences of the past drive our planning for deterrence of wars of the future. We will ensure that our planning and doctrine are attuned to the evolving international situation and to our strategic needs in a new era.

"Many nations in the world whose security we consider important to our own face military challenges, often instigated or supplied by third countries. A stable international system requires that small countries be secure and independent, and that they be able to protect their security and independence mainly by their own efforts.

"For this reason, American support of other nations' defense efforts has always been a vital component of our security policy and an essential element in maintaining international stability. In today's multipolar world, and as the United States adjusts its role from one of preponderance to one of sharing responsibilities more widely, this supportive role becomes all the more central to our policy.

"As great as our resources are, it is neither possible nor desirable for the United States to pay most of the costs, provide most of the manpower, or make most of the decisions concerning the defense of our allies. Nor, is it necessary. Our allies are determined to meet the threats they face as effectively as possible within the limits of their resources. Under the Nixon Doctrine, our role in our Security Assistance programs is to share our experience, counsel, and technical resources to help them develop adequate strength of their own.

"We provide this support through various programs of Security Assistance: grant military assistance to friendly countries unable to afford equipment which is essential to their self-defense; foreign military sales for cash or credit; and supporting assistance, which provides budgetary support to a few key countries to enable them to sustain their economies in spite of unusually heavy defense requirements.

"These programs have been a part of our policy for more than 25 years. They have met specific needs in a wide variety of cases. Our programs and means have reflected a careful and continuing assessment of our interests and needs in changing conditions.

"The success of these programs is strikingly evidenced by the changes over time in the composition of the program. The growing self-sufficiency and self-reliance of our friends - which our assistance is designed to promote - are reflected in the declining necessity for grant aid and the dramatic increase in their ability to take financial responsibility for their defense needs. Our grant military assistance has dropped from over $4 billion twenty years ago to less than $1 billion today, exclusive of South Vietnam. Where once our program was almost entirely on a grant basis, today sales make up by far the major portion of the program.

"In 1966 the largest military assistance grants went to the Republic of Korea, Turkey, the Republic of Vietnam, the Republic of China, Greece, and Iran. In 1974, in contrast, Iran will purchase all military equipment, paying fully for everything received. Greece and the Republic of China will

receive no grant materiel, and both are turning increasingly to cash and credit sales. The security requirements of South Korea and Turkey continue to require grant assistance, but both are moving toward increased use of credits as their economies continue to expand. The success of our programs in helping South Vietnam and South Korea build capable forces of their own has permitted us to withdraw all our forces from South Vietnam and 20,000 men from South Korea. These are two of the most significant demonstrations of how Security Assistance is precisely what enables allies to take up more of the responsibility for their own defense.

"The assistance of the United States cannot be effective unless an ally is willing and able to mobilize its own people and resources for its national defense. No country can escape responsibility for its own future. None of our friends would wish to do so. The encouragement, counsel, and assistance we provide can make a crucial difference to their success"...

pp.189-191

ENCOURAGING GROWTH OF THIRD-COUNTRY ASSISTANCE

Mr. SHRIVER. It is mentioned in the statements that are before the committee that the growth of third-country assistance in Southeast Asia is a trend that you want to encourage. Would you elaborate on that?

Admiral PEET. Yes, sir. We are anxious to develop that trend. For example, we are encouraging the Australians to assist the Indonesians, and the Australians have already given them F–86's.

In another area, both State and Defense are very anxious for Japan to do more to assist other countries in the region.

Mr. SHRIVER. Is Australia taking more of a hand in Indonesia?

Admiral PEET. Yes, I think there is every indication that they are. We discuss the matter with the Indonesians and with the Australians at every opportunity.

Mr. SHRIVER. Has it been just talk so far, or have they actually put in assistance?

Admiral PEET. In the case of Australia, there has been a considerable amount of assistance—the most recent case is the F–86 transfer that I mentioned.

The Indonesians wanted to modernize their Air Force; and rather than buy aircraft from us which they could not afford, we encouraged the Australians to meet that requirement, when GOA first expressed an interest in providing these aircraft.

Mr. SHRIVER. And what does that equipment amount to in money?

Admiral PEET. I do not have the exact amount of money, but there are 16 aircraft involved.

Mr. SHRIVER. All right. Would that be classified?

Admiral PEET. Yes, sir, the information is taken from a classified source.

[The information follows:]

THIRD COUNTRY AID

During the Australian Prime Minister's visit to Indonesia in June 1972, it was announced that Indonesia would be the recipient of one of the largest defense cooperation programs Australia has ever carried out—a $20 million package to be provided between July 1, 1972 and June 30, 1975. [Figures in Australian dollars.]

Mr. SHRIVER. Specifically, what is Japan doing?

Admiral PEET. I think that it is more an encouragement on our part at this stage.

Mr. TARR. Yes, sir, except the Japanese have contributed in the stabilization of the Cambodian economy.

For instance, our contributions for fiscal year 1973 are planned at $17.5 million, half of the estimated total of $35 million will come from all the other people who contribute.

The contributors are Japan, $7 million; Australia, $1 million; United Kingdom, $490,000; Thailand, $250,000; New Zealand, $100,000; Malaysia, $10,000. It is limited but there are other programs that are now underway.

ALLIED CONTRIBUTION TO PEACE IN ASIA

Mr. SHRIVER. What are our allies in Asia doing to help achieve a cease-fire in Cambodia; countries like Thailand? Are we the only ones involved in this cease-fire effort except for the North Vietnamese?

Mr. TARR. In terms of the people who have actually signed the documents, you know of the four parties involved in the ICCS.

In terms of quiet diplomatic moves, we have indications that many nations are working toward this. It seems that it is to the advantage of the people who have supplied materiel to the North Vietnamese to encourage it. We think that governments generally in that part of the world are encouraging it as best they can.

Obviously we are very important in the whole scheme of things because of the level of our effort.

Mr. SHRIVER. Well, the basis for much of our assistance over there has been to develop regional strength so that these countries can defend themselves against aggression. My question is: Where are they now?

Mr. TARR. Although we have tried to develop regional programs in that area of the world, they have not been nearly as successful as the NATO effort has been.

Admiral PEET. On the military assistance side, the Republic of China on Taiwan came to our assistance readily when we needed to get more equipment into South Vietnam. Thailand is being very cooperative by enabling us to have forces there.

U.S. MILITARY SALES TOTALS

Mr. SHRIVER. Now, on the growing military equipment sales of our Government and others, I have read that international trade in such equipment runs about $7 billion annually and is expected to increase to $15 billion by 1980. Have you seen those figures?

Admiral PEET. I have not seen the exact figures.

Mr. SHRIVER. Would that be in the ball park, about what is anticipated?

Admiral PEET. Well, it depends on the assumptions. I would say $7 billion in total world sales is not too far off.

Mr. SHRIVER. How much of this would be accounted for by U.S. sales, whether for credit or for cash.

Admiral PEET. Credit and cash, this year I think we are roughly at $4 billion-plus.

For 1973, we expect cash and credit sales to be about $3.8 billion. Commercial sales will run roughly about $700 million.

Mr. LONG. Does that include credit and cash sales?

Admiral PEET. FMS credit and cash sales for 1973 should be about $3.8 billion; commercial sales, not FMS, about $700 million for 1973. For 1974 we are estimating FMS credit and cash total——

Mr. LONG. That is $4.5 billion altogether?

Admiral PEET. Yes. A little over that.

In 1974, we are estimating the total cash and FMS credit sales at about $4.7 billion, and commercial sales a little over $700 million.

TERMINATION OF GRANT MILITARY ASSISTANCE

Mr. SHRIVER. Now you are proposing to terminate grant military assistance in fiscal 1974 for Taiwan, Greece, and Liberia?

Admiral PEET. Yes, sir.

Mr. SHRIVER. Are there other countries which are nearing this stage?

Mr. TARR. We hope so.

Mr. SHRIVER. Would you list in the record all the countries?

First, in the record list all the countries in which you have terminated grant aid over the past 4 years.

[The information follows:]

NUMBER OF COUNTRIES WITH MAP MATERIEL PROGRAMS

	Fiscal years—				
	1970	1971	1972	1973	1974
Total	24	23	20	21	20
East Asia	5	5	5	[1] 6	[2] 5
NESA	2	[3] 5	[4] 3	3	[5] 2
Europe	2	2	2	2	2
Africa	4	[6] 3	3	3	[7] 2
Latin America	11	[8] 7	[9] 7	7	[10] 9

[1] Thailand moved from MASF to MAP.
[2] China, Republic of, dropped from MAP.
[3] Jordan, Lebanon, and Sri Lanka added.
[4] Lebanon and Sri Lanka dropped.
[5] Greece dropped.
[6] Zaire dropped.
[7] Liberia dropped.
[8] Ecuador, El Salvador, and Honduras dropped.
[9] Colombia dropped.
[10] El Salvador and Honduras added.

Mr. SHRIVER. What are some of them, offhand?

Mr. TARR. I think the number since 1965 has dropped to about, now about one-half what it was then. Was it not 40-some?

Admiral PEET. There may be some confusion as to whether we are talking about materiel or just grant training. We have dropped a sizable number from the list of those receiving materiel grant aid. However, we are encouraging grant training to continue in many cases.

Mr. TARR. We can provide that.

Mr. SHRIVER. Put that in the record.

[The information follows:]

NUMBER OF MAP RECIPIENTS

	Materiel only	Training only	Materiel and training	Total
1965	1	16	42	59
1972		24	20	44

All or a part, as indicated, of the military assistance to the following countries has been ended since 1965.

MATERIEL ASSISTANCE	TRAINING ASSISTANCE	MATERIEL AND TRAINING
Netherlands	Denmark	Norway
India	Iraq	Greece
Nepal	Syria	Burma
Pakistan	Nigeria	Japan
Saudi Arabia	Sudan	Laos (MASF)
Zaire	Upper Volta	Vietnam (MASF)
Liberia		Costa Rica
Mali		Ecuador
Morocco		Iran
Senegal		Guinea
China		Libya
Argentina		
Brazil		
Chile		
Columbia		
Peru		

Military assistance, as indicated, has been initiated to the following countries since 1965.

MATERIEL ONLY	TRAINING ONLY	MATERIEL AND TRAINING
Indonesia [1]	Sri Lanka	Cambodia
Jordan [1]	Ghana	
Tunisia [1]		

[1] Received training in 1965.

Admiral PEET. The total number of MAP and FMS countries in 1971 was 71.

In 1972, it was 75.

In 1973, the number is down to 65, both MAP and FMS. However, as Dr. Tarr pointed out, we have done considerably better than that because we have cut the number of countries receiving grant aid in half since 1965. We do plan to continue the grant training in many cases.

SALES AND TRAINING FOR CHILE

Mr. SHRIVER. Now I am not trying to get specific by country, except as it relates to one country. You are requesting $10 million for credit sales and $1 million for training for Chile.

Admiral PEET. Yes, sir.

Mr. SHRIVER. That is in fiscal 1974.

Now, what would be the effect, in your opinion, if Congress were to expressly prohibit this program for Chile?

Admiral PEET. Well, the training effect is obvious. We would have a lot less influence with the people we train.

As far as credit is concerned, it would cause us to be noncompetitive with other countries which are making sales to Chile.

For example, we are currently considering F–5 and A–37 sales to Chile. If we are not able to provide them credit, at least at the cost of money to the United States, then we do not have much chance of making a sale to that country. They are going to look to either the French or the Russians for those aircraft.

Mr. TARR. I think, if I may add, the important thing is that we have not specifically decided to do business with the Government of Chile. The President has signed the waiver authority which would open up the door to that possibility. Many things obviously have to be taken

into account before we actually come to the point where we were willing to do business with Chile.

One of the things that we have in mind is that we would like to continue to cooperate with the military leadership in Chile.

Mr. PASSMAN. Would the gentleman yield?

Mr. SHRIVER. Certainly.

Mr. PASSMAN. This has always confused me. It seems to me that what you are saying, that you people are trying to have more influence with the President or the leadership of Chile, than their own people are going to have.

I just cannot rationalize that type of thinking. Maybe some people can. I sure cannot.

MALTA BASE AGREEMENT

Mr. SHRIVER. I brought this up before, but I have not really had a good convincing argument as to why the United States must put up one-fourth of the annual contribution to support the defense agreement concluded between the United Kingdom and the Government of Malta. This is essentially a base rental agreement, is it not?

Mr. TARR. It is a NATO base rental.

Mr. SHRIVER. To what extent do the U.S. ships use that base?

Mr. TARR. It is used primarily by the British ships.

Mr. SHRIVER. Why do we have to put up a fourth of the money?

Mr. TARR. Well, this is an agreement we worked out with our NATO allies because we thought it was important for us to continue the use of that base for NATO Forces, rather than to have it available for use by other forces. We negotiated the agreement on the basis that we would make our payments——

Mr. SHRIVER. When was that done?

Mr. TARR. Well, it was done about a little over a year ago.

Mr. SHRIVER. How long does the agreement go?

Admiral PEET. I do not know. The Department of Defense is not involved.

Mr. TARR. Let me provide it for the record.

[The information follows:]

DURATION OF AGREEMENT ON MALTA

The duration of the agreement on Malta is for 7 years. The agreement was signed March 26, 1972, and will therefore expire on March 26, 1979.

Mr. SHRIVER. Admiral, you are requesting $78.3 million under the credit sales program for the guarantee of private financing. What level of private financing will this support?

Admiral PEET. It will support about $313 million, or four times the $78.3 million.

TRAINING IS NO. 1 PRIORITY

Mr. SHRIVER. The justifications state that, dollar for dollar, the training program represents one of the most productive investments which can be made by the United States in the progress and stability of recipient nations.

Would you rate these training programs as priority No. 1 if Congress, for instance, decides it is necessary to reduce your budget request?

Admiral PEET. In view of the fact that training has been made a separate part of the request, I think we would all agree it should be the last thing to be cut.

Mr. TARR. I would.

Mr. SHRIVER. That would be your first priority?

Mr. TARR. Yes.

EXCESS DEFENSE ARTICLES

Mr. SHRIVER. In describing the excess defense articles request, the justifications include the following sentence:

> Dollar values have been included to account for excess items that, although not currently forecasts as being available from excess during fiscal year 1974, undoubtedly will become available and match validated, but as yet unprogramed, MAP requirements.

Admiral PEET. Yes, sir.

Mr. SHRIVER. What does that mean?

Admiral PEET. Well, we have a problem with excess defense articles because it is hard for us to forecast when they will be excess to the services' needs. However, each year a certain amount does become available; and we attempt to program that item, to make the most of it.

We have used excess over the years as a substitute for purchasing new items. There has been a lot of talk over the years as to how these items are valued.

A number of years ago one of my predecessors—I believe before this committee—was asked what he thought the average value of the excess was. He estimated roughly one-third of acquisition cost, and we have been living with that figure since then.

However, in the meantime, we have looked at several hundred items of equipment and have found none having an actual value equal to or greater than one-third acquisition cost. For example, the current actual value of excess aircraft is only about 15 percent.

Most of the materiel coming out of Vietnam and other places that becomes excess is unusable from our point of view, but it is of value to some countries where labor costs are low, as for example, in Taiwan. They can take one of our jeeps or trucks that we would sell as scrap and make it look like a brandnew vehicle in short order.

We try to make the most of this sort of thing around the world.

Mr. SHRIVER. I yield to the chairman.

Mr. PASSMAN. Is it not true that if we did not utilize this excess equipment, these nations actually can make use of it and in many instances it serves the same purpose as new equipment, then under the law you have to junk it?

Admiral PEET. Yes, sir.

Mr. PASSMAN. You may get possibly as low as one-half of 1 percent on the dollar against actual acquisition cost; is this not true?

Admiral PEET. Yes. We have some examples of this.

Dr. Tarr, in dealing with excess tanks, has insisted if we give an excess tank to the country, they have to update it and modernize it, as they are doing in Turkey. They have to turn in an old tank, so that they do not build up excessive operation and maintenance costs.

We are trying to manage it that way.

COST OF MILITARY ASSISTANCE PERSONNEL

Mr. SHRIVER. I have just one more question under the general questions before I get to your specific countries. Can you estimate how much will be expended under the Defense budget for regular pay and other costs for military assistance personnel in fiscal 1974?

Admiral PEET. Yes; all the uniformed people in the MAAG's and other missions are paid from the Defense budget.

Mr. SHRIVER. Can you estimate how much that is?

Admiral PEET. We can give it to you.

We are estimating that the total cost of supporting these units, including pay and allowances, will be close to $50 million for fiscal 1974.

Mr. SHRIVER. Thank you, Admiral.

INTRODUCTION OF NEW COMMITTEE MEMBER

Mr. PASSMAN. Thank you, Mr. Shriver.

Members of the committee and witnesses, I would like to take a little time and introduce you to our newest committee member, Bill Chappell, Jr., of Florida.

Welcome to the committee, Bill.

Mr. CHAPPELL. Thank you, sir; good to be here.

Mr. PASSMAN. The chairman saw fit to assign Mr. Chappell as a temporary member of this subcommittee. He is a very able Member and we know he is going to make a substantial contribution.

Let me just state briefly if I may, Bill, that this subcommittee abides by the 5-minute rule adopted by the House, and that when we call the committee to order, each member may consume 5 minutes in questions and answers. Then when we have gone around the table, after each member uses his 5 minutes, then each member may consume all the time he feels is necessary to ask his questions. If it takes the newest member on the committee a full day, he is entitled to that full day.

Now, of course, all the members have had their 5 minutes on the military and we are moving around the table now on what we refer to as general questions on the overall military assistance program. After we have gone through the general questions, then we will return to the country examination.

That is where it is rather time-consuming. We may require at least 2 weeks to finish our questioning on the military when we get into the country examination.

So that you may be on a par with the other members of the committee, I would like to yield to you at this time the required 5 minutes as fixed by the Congress. We will then get back in regular order around the table.

DETERMINING SELF-HELP CAPABILITY

Mr. CHAPPELL. Mr. Chairman, I am so new I do not have very many questions to ask. As a matter of fact, I have just one I would like to ask, which is probably very elementary.

How do you determine how capable these other nations are in really participating in their own self-defense and balance it with our necessity to keep them in the picture for our own national security?

Admiral PEET. That is a difficult thing for us to do. We have a comprehensive system for doing this.

The primary source of information, of course, is the Ambassador and the country team that exists in-country. They submit their recommendations through two channels to Washington.

In one, the Ambassador goes directly to State; in another, the Ambassador passes on the MAAG submission that goes to the CINC and, from him, to the Joint Chiefs, and to the Secretary of Defense.

In the Pentagon, the Joint Chiefs meld these recommendations with their requirements. They put out what we call a joint strategic objectives plan which they meld with the military assistance plan. That is one way where the two are put together.

I have the responsibility in the Office of the Secretary of Defense for reviewing these plans and making sure that they are consistent. Of course, Dr. Tarr coordinates the effort of State, AID, Defense, and the whole program. He chairs a council that is called the SAPR Council. At that council he hears recommendations as to how we would divide and spend this money.

The responsibility for actually allocating the money and deciding whether or not there will be a program at all in a given country is assigned by law to the Secretary of State.

Mr. CHAPPELL. Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Chappell. It was a very good question.

NATIONS WHERE AID HAS BEEN SUSPENDED

Mr. PASSMAN. Could you please provide a list for the record showing which countries you have suspended military assistance to for the last 5 years and the reason for this suspension?

Admiral PEET. I will provide the information.

[The information follows:]

MILITARY ASSISTANCE SUSPENSIONS

Country and reason
Nigeria, civil war.
Pakistan/India, war between the two states.
Peru, U.S. fishing boat seizures.
El Salvador/Honduras, border conflict.
Ecuador, fishing boat seizures and expulsion of U.S. military group.

EFFECTS OF DEVALUATION

Mr. PASSMAN. Could you tell the committee what effects the recent dollar devaluation had on the military assistance program and the foreign military credit sales program?

Mr. VON MARBOD. In the area of MAP administration, the major impact of the latest dollar devaluation was felt in the increased operating costs of our MAAG's and missions worldwide. The bulk of these increases in fiscal year 1973 will result from the increased cost of local national salaries, rents, and local services and procurements. The military assistance program will also reimburse the Department of State a greater amount in fiscal year 1973 for those countries where State provides administrative support to the MAAG or mission.

Although complete cost data is not available at this time, USEUCOM has estimated the increased costs that will be incurred by the MAAG's and missions under that command will be $110,000 in fiscal year 1973. That amount, of course, reflects only the result of the devaluation for a period of less than 6 months. The fiscal year 1974 impact should be much greater.

In the area of supply operations, we seldom have transportation, packing, crating, and handling services performed by a foreign concern. To the extent that we do, though, the charges for the services rendered would be higher than before the devaluation of the dollar. The price of those few items procured offshore also would increase.

Foreign military credit sales were not affected to any degree, since the funds are used for procurement of items and services of U.S. origin. Repayments of FMS credit loans are made in U.S. dollars. However, the cost of the items to the customer would be lower when expressed in his local currency; that is, he would need less local currency to procure the dollars to make the repayment.

USE OF UNITED STATES CARRIERS

Mr. PASSMAN. Are all goods that are purchased in the United States required to be shipped on U.S. carriers?

Admiral PEET. U.S. military items sold commercially for export need not be shipped on U.S. carriers. Nor is there such a statutory requirement for military items sold by the U.S. Government for cash or on nonconcessional credit terms under the Foreign Military Sales Act, as amended. However, it is Department of Defense policy, specified in DOD Instruction 2110.12, that materiel will move on U.S. flag ships "except when such ships are (1) not available or (2) available only at prices higher than private persons are charged," or when air transportation is to be afforded such materiel, U.S. flag aircraft will be used "except when such aircraft are not available or capable of satisfying the transportation requirement or when foreign flag carriers will accept payment in excess or near-excess U.S.-owned foreign currencies which U.S. flag carriers will not accept." Section V.B. 7 of that instruction states that this policy specifically applies to credit sales and "will be applied to the fullest extent possible to cash sales." The same policy is applied to DOD cargo traffic pursuant to DOD Directive 4500.9 (Title 32 C.F.R., sec. 178.3). Sec. 910(b) of theMerchant Marine Act, 1936, as amended, is applicable to the shipment of military items either granted or sold under concessional credit financing terms. The typical provision on this subject contained in the standard credit agreement executed under the Foreign Military Sales Act, as amended, provides: "All ocean transportation of the defense articles shall be on vessels of United States registry. The Government of the United States will give sympathetic consideration on a case-by-case basis to requests by the borrower justifying shipment on vessels of the registry of the borrower. Consideration will be given to security requirements of the borrower to assure safe arrival."

Mr. PASSMAN. As you know, last year the Congress provided $2,500,000 for the regional naval training center in Florida and I understand by certain articles that I have received that these amounts were impounded by the executive branch. Would you please comment on this situation and does the Defense Department have any intention of obligating these funds in fiscal year 1974?

Admiral PEET. The Congress did provide a separate amount of $2,500,000 in fiscal year 1973 continuing resolution authority to establish and operate a training center for Latin American naval personnel at Key West, Fla. However, during review of budget submissions from all executive branch agencies the decision was made by the Office of Management and Budget not to use the funds for this center in the interest of holding Federal outlays for fiscal year 1973 to $250 billion. These funds have not been used for any other purpose.

There are no plans to use these funds in fiscal year 1974. Any or all of the $2.5 million not obligated fiscal year 1973 would lapse, and it would be legally unavailable during fiscal year 1974 unless reappropriated. Additionally, no fiscal year 1974 MAP funds are earmarked for this purpose.

EXCESS EQUIPMENT

Mr. PASSMAN. In a General Accounting Office report dated March 21, 1973, there was a great deal of criticism concerning the use of excess defense articles, which is handled under the Department of Defense. I guess one of the main criticisms was that the Department of Defense expanded the use of excess Defense articles in the military assistance programs to compensate for reductions in military assistance programs appropriations. Would you please comment on this General Accounting Office report?

Admiral PEET. The Department of Defense responded to these criticisms by letter October 4, 1972, and the response was included as appendix V of the GAO report. The Department does not accept this conclusion. The expanded use of EDA in MAP was the result of increased availability of EDA which could be utilized to meet both funded and unfunded requirements. The reduction in MAP appropriations at this same time was coincidental and not a controlling factor.

Mr. PASSMAN. In Public Law 91–672, as amended, a ceiling was placed on the excess equipment program of $185 million. Are you requesting an increase in the ceiling for fiscal year 1974?

Also, is it not true that if you are denied the right to allocate excess equipment to the recipient nation in the military assistance program the equipment would have to be declared surplus and sold for scrap because you cannot sell it to civilians?

Admiral PEET. The requested excess defense article ceiling for fiscal year 1974 is $185 million; unchanged from Public Law 91–672, as amended. Should the DOD be denied the right to allocate excess defense articles to MAP recipient nations the excess materiel would be available to satisfy possible requirements of other U.S. Government agencies prior to transfer to defense property disposal offices for demilitarization and disposal to highest bidder. It is likely that a high percentage of such materiel would indeed be disposed of as scrap should it be unavailable for MAP purposes.

TOTAL FUNDS AVAILABLE

Mr. PASSMAN. In addition to your NOA request of $685 million, you anticipated other funds will become available through the appropriations, recoupments, and reimbursements which will make the total funding available for fiscal year 1974 of $804,500,000. Would you list

for the record the amount anticipated to become available in fiscal year 1974 for each of these items?

Mr. VON MARBOD. Yes, sir.

[The information follows:]

FISCAL YEAR 1974 (BUDGET ESTIMATED)

	Million
Budget authority	[1] $685.0
Reappropriation	5.0
Reimbursement	[2] 74.5
Recoupment	40.0
Total	804.5

[1] Includes $33 million requested for international military education and training program.

[2] Includes reimbursement of $69.5 million for Project Enhance.

BUDGET ESTIMATES AND APPROPRIATIONS

Mr. PASSMAN. Would you please update the table that appeared on page 726 of last year's hearings, which shows the budget estimates, appropriations and unobligated balances for this purpose over the years?

Mr. VON MARBOD. Yes, sir.

[The information follows:]

BUDGET ESTIMATES, APPROPRIATIONS, AND UNOBLIGATED BALANCES

[In millions of dollars]

	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	1,422.2	1,022.2	195.5
1957	3,000.0	2,017.5	538.8
1958	1,600.0	1,340.0	21.5
1959	1,800.0	1,515.0	52.1
1960	1,600.0	1,300.0	50.9
1961	2,000.0	1,800.0	58.1
1962	1,885.0	1,600.0	64.2
1963	1,500.2	1,325.0	25.8
1964	1,405.0	1,000.0	4.4
1965	1,055.0	1,055.0	22.2
1966	1,170.0	1,170.0	11.1
1966 supplemental	[1] 375.0	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	5.8
1971 supplemental	----	340.0	----
1971 transfer	----	60.0	----
1972	705.0	500.0	2.3
1973	819.7	[2] 550.6	[3] 5.0
1974	804.5	----	----

[1] To liquidate sec. 510 authority utilized in fiscal year 1965 ($75,000,000) and fiscal year 1966 ($300,000,000)

[2] CRA.

[3] Estimate.

RECOUPMENTS

Mr. PASSMAN. Please also update the table which appeared on page 727 of last year's hearings concerning the original estimates of recoupments and the actual by year.

Mr. VON MARBOD. Yes, sir.

[The information follows:]

RECOUPMENTS—ORIGINAL ESTIMATE VERSUS ACTUAL, FISCAL YEARS 1961–73

[In millions of dollars]

Fiscal year	Original estimate	Actual
1961		
1962	155.8	120.6
1963	317.7	240.7
1964	204.6	250.0
1965	125.0	124.8
1966	135.0	152.0
1967	78.0	146.2
1968	100.0	156.5
1969	65.0	86.4
1970	62.0	68.5
1971	47.9	31.4
1972	36.0	28.9
1973	22.5	40.3
	30.0	

PROCUREMENT LEADTIME

Mr. PASSMAN. Would you place in the record a list showing the average leadtime needed to procure various items of military equipment?

Admiral PEET. There is no meaningful average leadtime to be associated with delivery of MAP equipment since the worldwide program varies so extensively in item makeup and in individual procurement/delivery problems. The following discusses the MAP pipeline and delivery leadtimes in terms of various categories:

Much of the pipeline, with regard to an individual program year, is delivered within a 18-month period subsequent to the date on which it is entered on a MAP order to the military departments. This includes a wide range of repair parts and commodities which the military departments are in a position to deliver from stock or for which the procurement lead time is less than 18 months.

On a diminishing basis, various segments of the pipeline will carryover in an undelivered status for more than 18 months. These include material items with a procurement leadtime as high as 3 years, if no problems develop, and are represented by certain types of aircraft, ships, engineering equipment, radars and communications equipment.

Various factors can extend the time period in which a funded program must be carried as undelivered, for example, when appropriations are delayed and requirements/funding priorities so dictate an item may be placed on MAP order very late in the fiscal year. This may add the major portion of a year to the average delivery leadtime. In other cases, an item on MAP order must await a "buy-cycle" of the procuring military department. This also delays delivery to the MAP customer.

Occasionally significant delays occur in delivery due to difficulty in obtaining a product which meets the qualitative requirement. This may occur when the procuring service, operating under small business practices, awards a contract to a bidder who subsequently defaults or has problems. Procurement of AN/PRC–25/77 radios is an example.

Finally, higher priority customers cause delay in MAP deliveries. This has been and is still the case with regard to Southeast Asia where MAP has had to wait.

Based on past experience, it therefore may be stated that a greatly diminished pipeline may still be undelivered 4 or 5 years after program funding. The pipeline is reviewed on a continuing basis to: (*a*) assure prompt deliveries against valid requirements. (*b*) retain in an undelivered status only those items which can be completely justified, and (*c*) close out (recoup) all line items not completely justified.

COUNTRY ALLOCATION

Mr. PASSMAN. Place in the record a list showing the countries which will be receiving some type of military assistance in fiscal year 1974, indicating whether the country will receive material or training or both.

Admiral PEET. Yes, sir.

[The information follows:]

Country	MAP (material)	IMET (training)	Country	MAP (material)	IMET (training)
Cambodia	X	X	Ghana		X
ROC	X[1]	X	Liberia	X[1]	X
Indonesia	X	X	Mali		X
Korea	X	X	Morocco		X
Malaysia		X	Senegal		X
Philippines	X	X	Tunisia	X	X
Thailand	X	X	Zaire		X
Afghanistan		X	Argentina		X
Greece	X[1]	X[1]	Bolivia	X	X
India	X[1]	X	Brazil		X
Iran	X[1]		Chile		X
Jordan	X	X	Colombia		X
Lebanon	X[1]	X	Dominican Republic	X	X
Nepal		X	El Salvador	X	X
Pakistan		X	Guatemala	X	X
Saudi Arabia		X	Honduras	X	X
Sri Kanka	X[1]	X	Mexico		X
Turkey	X	X	Nicaragua	X	X
Austria		X	Panama	X	X
Finland		X	Paraguay	X	X
Portugal	X	X	Peru		X
Spain	X	X	Uruguay	X	X
Ethiopia	X	X	Venezuela		X

[1] Reflects delivery/expenditure of prior years programs only.

Mr. PASSMAN. Are you planning to add or delete any military assistance countries in fiscal year 1974 and if so, what are the countries?

Admiral PEET. In our request for fiscal year 1974 we have added small material programs for El Salvador and Honduras. We have not included any request for material programs for Liberia and the Republic of China on Taiwan (ROC); however, we plan a program for training for these two countries. Greece is not included in our request for either material or training programs.

COUNTRIES EXPERIENCING A COUP

Mr. PASSMAN. Admiral, could you tell us if any countries to which we were supplying military assistance have experienced a military coup this past year?

Admiral PEET. A military coup occurred in Honduras during 1972. Honduras is the recipient of a small grant MAP program of approximately $500,000.

SUSPENSION OF AID

Mr. PASSMAN. Has the United States suspended military or economic assistance this past year, and, if so, for what reason?

Admiral PEET. Due to seizures of U.S. fishing boats, U.S. foreign military sales assistance to Peru was suspended in December 1972 and reinstated in May 1973. Economic assistance was not suspended.

SOPHISTICATED WEAPONS

Mr. PASSMAN. Have you supplied any sophisticated weapon systems to any underdeveloped countries this past year, or do you plan to supply such systems in fiscal year 1974?

If so, please list the country and indicate why the country is in need of such assistance.

Also, is it not true that these underdeveloped nations would purchase this equipment from other sources if the United States refused to supply it?

Admiral PEET. Your query raises the very interesting question as to what, in today's environment, is a sophisticated weapon. When the reference to sophisticated weapons was placed into the existing legislation, it was illustrated with the words "jet aircraft and missiles." Few today view either jet aircraft or missiles, per se, as sophisticated although some versions of these systems are indeed complex. Notwithstanding the speed with which items now transition from a state of newness and so-called sophistication to a commonplace position in the world's armaments, we seek diligently to pursue the intent of the legislation dealing with sophisticated weaponry and all weapons considered for grant aid or FMS are examined in that light. Specifically as regards jet aircraft, in 1973 Korea, Turkey, and Jordan were recipients. However, except perhaps for the F–4 in Korea, we would not really view the aircraft as sophisticated. In fact, some of these aircraft had already served long years in the U.S. inventory and were excess to our needs. Also during fiscal year 1973 aircraft missiles were provided to Korea and antitank missiles were provided to Turkey. These transfers in each instance were for the purpose of improving country defense capabilities. During fiscal year 1974 we plan to provide additional jet aircraft to Korea and Turkey, and antitank missiles to Turkey and Jordan.

Experience has proved that less developed countries do not consider security to be a luxury reserved for the more affluent. Recent Latin American purchases of French and United Kingdom military aircraft, tanks and ships in the face of U.S. restrictions on the supply of so-called sophisticated weapons is a case in point.

DEVELOPED COUNTRIES RECEIVING AID

Mr. PASSMAN. Would you also list for the record the developed countries which the United States is supplying grant military assistance or military credit sales to in fiscal year 1973, the reasons these developed countries are receiving such assistance and what developed countries are planned to be added in fiscal year 1974?

Admiral PEET. Using the interest equalization tax as a guide for the determination of developed countries, the following nations benefited under grant military assistance in fiscal year 1973:

Spain received $9.2 million in accordance with the agreement of friendship and cooperation.

Portugal $.9 million. Primarily for mission support, spare parts, and training. This assistance was provided for improvement in antisubmarine and antiair warfare capabilities.

Saudi Arabia $.2 million. This assistance is for mission support and training and was provided to maintain close relations with this moderate Arab country.

FMS credit assistance was not provided to these countries during fiscal year 1973, but we are proposing $20 million to Saudi Arabia as FMS credits in fiscal year 1974. No additional developed countries are planned to receive grant or military credit sales assistance during fiscal year 1974.

FORWARD DEFENSE COUNTRIES

Mr. PASSMAN. Several years ago you used the terminology "forward defense countries" which meant the countries that were essential to the national defense of the United States, I assume. Could you tell the committee which countries are now considered essential to the national security of the United States?

Admiral PEET. The United States has entered into eight collective defense treaties—four multilateral and four bilateral—for the purpose of providing mutual security and collective defense against major threats to the common interests of the United States and its treaty partners.

The four multilateral treaties are:

The North Altnatic Treaty;
The Southeast Asia Collective Defense Treaty;
The Inter-American Treaty of Reciprocal Assistance; and
The Security Treaty with Australia and New Zealand.

The four bilateral treaties are with Japan, the Republic of Korea, the Republic of China, and the Philippines.

All of the countries associated with the United States in these treaties are considered important, if not essential, to the national security of the United States.

Mr. PASSMAN. Could you tell us what percent of the total grant equipment proposed by the MAP program in fiscal year 1974 for these countries will be used for investment and updated equipment?

Admiral PEET. The only NATO countries programed to receive grant military assistance in fiscal year 1974 are Turkey and Portugal: 72 percent of Turkey's MAP will be used for investment and updated equipment, and 55 percent of Portugal's MAP will be used for investment and updated equipment.

Japan does not receive grant MAP. Eighty percent of the Republic of Korea's MAP, 77 percent of the Philippines MAP, and 51 percent of the MAP program for Thailand will be used for investment and updated equipment.

There are nine Rio pact countries in Latin America which are proposed recipients of grant materiel in fiscal year 1974. The percent of each country program to be used for investment and updated equipment is as follows:

Bolivia	74
Dominican Republic	65
El Salvador	88
Guatemala	99
Honduras	85
Nicaragua	81
Panama	40
Paraguay	70
Uruguay	24

COUNTRIES WHERE THE UNITED STATES HAS BASE RIGHTS

Mr. PASSMAN. In what countries does the United States presently have base right privileges?

Admiral PEET. The United States uses real estate for specific activities in 42 countries and areas overseas. We currently have military bases in the following countries:

The Azores (Portugal), Belgium, Bermuda, Canada, Cuba, Ethiopia, Germany, Greece, Greenland (Denmark), Iceland, Italy, Japan, Korea, Morocco, Netherlands, Philippnies, Ryukyus, Spain, Taiwan, Thailand, Turkey, United Kingdom, Bahrain, and Diego Garcia.

Mr. PASSMAN. What countries in the last 5 years have withdrawn our base rights?

Admiral PEET. Pakistan withdrew United States base rights in 1969 and Libya in 1970.

Mr. PASSMAN. Of the countries that have withdrawn our base rights privileges is the United States still supplying them with military aid?

Admiral PEET. No, except pipeline delivery of previously embargoed spare parts to Pakistan which were purchased under FMS credit prior to fiscal year 1973. Pakistan continued to receive grant military training for 78 students in fiscal year 1973, and a continuing modest grant military training program is proposed for fiscal year 1974.

OFFSHORE PROCUREMENT

Mr. PASSMAN. In the justifications you state with a few exceptions, all grant military materiel provided to other countries is purchased in the United States from U.S. suppliers. What military items would be purchased outside the United States and in what countries?

Mr. VON MARBOD. Examples of items procured from sources outside the United States are: mortars from Taiwan, unit equipment from Korea, POL from Singapore, magazines from Korea, radars from Canada, overhaul of Navy ships in Singapore, aircraft repair and rehabilitation in Japan, Taiwan, or Thailand.

Mr. PASSMAN. Why shouldn't we make it a condition that all military items supplied must be purchased from U.S. sources?

Mr. VON MARBOD. Some of the items required are not produced in the United States. Domestic procurement would be uneconomical, since offshore procurement is usually not authorized unless the U.S. cost is more than 50 percent in excess of the cost of foreign supplies or services. In addition, the leadtime often involved in procuring the items domestically, would prevent us from meeting established target dates. Offshore procurement might also be necessary to fulfill U.S. commitments on cost-sharing projects or to support foreign policy objectives.

Mr. PASSMAN. What part of the fiscal year 1974 budget request for military assistance will be used for procurement outside the United States?

Mr. VON MARBOD. Approximately $5 million.

TRANSITION FROM GRANT-AID

Mr. PASSMAN. In the justifications you indicate that the grant aid is to be terminated as rapidly as possible and a transition is to be made to a sales basis. However, I note the budget request for military assistance is above what was requested last year. Could you explain how this transition is presently being implemented?

Admiral PEET. It is difficult to effect an orderly transition to increased emphasis on foreign military sales when our requests for both grant programs and FMS credit programs are reduced when NOA is provided by the Congress at levels considerably less than our requests.

For fiscal year 1973, the administration requested $527 million in NOA for the foreign military sales credit program. Congress provided, by continuing resolution authority, $400 million in NOA for fiscal year 1973. For fiscal year 1974, the administration is requesting $525 million in NOA for the foreign military sales credit program. This is about the same level as the administration's fiscal year 1973 request.

For the grant military assistance program for fiscal year 1974, the administration is requesting less NOA than we requested for fiscal year 1973. In fiscal year 1973, our request was for $780 million in NOA for the military assistance program. Congress has provided, by continuing resolution authority, $553.1 million in NOA for fiscal year 1973. For fiscal year 1974, the administration is requesting $652 million in NOA for the military assistance program. Therefore, in terms of NOA, our request for the military assistance program is $128 million less for fiscal year 1974 than our request for fiscal year 1973.

Mr. PASSMAN. Could you please tell the committee which countries have been eliminated from the grant military assistance program for the past 5 years?

Admiral PEET. Since the beginning of fiscal year 1969, Iran, Libya, Argentina, Brazil, Chile, Peru, Eucador, and Greece have been eliminated from the grant materiel military assistance program. Greece ceased being a grant recipient on Jaunary 1, 1973. In addition, the Republic of China and Liberia will be terminated as grant material aid recipients as of June 30, 1973. Modest training programs are proposed to continue during fiscal year 1974 for Argentina, Brazil, Chile, Colombia, Peru, the Republic of China, and Liberia under the international military education and training program.

FUNDS FOR REFURBISHING

Mr. PASSMAN. Are funds included in the fiscal year 1974 MAP appropriation request to refurbish and refit equipment obtained through equipment loans?

If so, how much is requested in fiscal year 1974 for this purpose?

Also, what type of equipment is involved in these loans and what countries will receive this equipment in fiscal year 1974?

Admiral PEET. Yes. A total of $9.7 million of the fiscal year 1974 MAP request is for ship overhauls of loans of naval ships to Cambodia, Indonesia, Korea, Philippines, Turkey, Ethiopia and Bolivia.

COORDINATION OF MAP PROGRAM

Mr. PASSMAN. How are the military assistance programs for South Vietnam and Laos coordinated with the MAP program you are justifying when these two countries receive their funding from the Department of Defense appropriations?

Admiral PEET. The military assistance programs for South Vietnam and Laos are reviewed in relation to the total forces concept at the same time other defense programs are reviewed. By integrating all such programs into the defense planning, each is measured against the other to determine allocation of resources. Therefore, programs for South Vietnam and Laos are coordinated with MAP to insure that balanced MASF and MAP assistance programs are formulated, coordinated and presented to the Congress.

POLITICAL OBJECTIVES

Mr. PASSMAN. In the justifications it is stated that in some countries the security assistance programs are essential in helping to achieve U.S. political objectives, would you tell us what countries are involved here and what the political obectives are?

Admiral PEET. The United States has political objectives in all countries which request and receive our security assistance—objectives which our assistance is designed to promote. In the Middle East, for example, we seek to strengthen and preserve moderate but threatened Arab governments, such as Jordan and Lebanon, and friendly oil-producing states in the Persian Gulf. Our objective is to maintain stability in the region and thereby facilitate a settlement of the Middle East dispute. We also seek to maintain close and confident bilateral and alliance relationships as well as good military relations with Turkey. In Korea and Southeast Asia, a principal political objective is to enable allied and friendly governments to maintain the truce and negotiate with neighboring Communist regimes from a position of adequate military strength rather than weakness. In countries such as Indonesia and the Philippines, we seek to strengthen the structure of a central government which is still in the process of nation building but has experienced difficulties in maintaining internal security and control.

In every case, the U.S. political objectives are directly related to the advancement of U.S. security and interests.

LEGISLATIVE RESTRICTIONS

Mr. PASSMAN. Could you please provide for the record a list showing what legislative restrictions are presently applied to the military assistance program, the foreign military sales program, the excess defense articles program, and the international military education and training program?

Mr. FORMAN. Yes sir. I would note that, legally speaking, the excess defense articles program is an integral part of the military assistance program, and that all statutory restrictions upon the grant of defense articles are applicable to excess as well as nonexcess defense articles. There is, however, one statutory restriction which is applicable solely to the grant of excess defense articles. Section 8 of Public Law 91-672 (FMSA amendments of 1971), as amended, imposes a worldwide ceiling on the amount of excess defense articles which may be granted without charge to the military assistance appropriation.

I would also note that, legally speaking, grant military training is a part of the military assistance program. Section 644(f) of the Foreign Assistance Act of 1961, as amended, includes training in the definition of "defense service," and so all statutory restrictions applicable to military assistance generally, except where it is otherwise expressly provided, are now applicable to grant military training. While the administration is proposing the restructuring of grant military training into a separate international military education and training program in the context of the authorizing legislation that proposal has not been enacted to date. Section 510 of the Foreign Assistance Act of 1961, as amended, which imposes a ceiling on the number of MAP trainees in the United States in any fiscal year, is the only statutory restriction which is applicable solely to grant military training.

The following lists of major restrictions on MAP, FMS, and FMS credits are intended as summary information for purposes of handy reference and are not intended to be either exhaustive or definitive.

[The information follows:]

MAJOR RESTRICTIONS ON MAP IN FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

The following are the major restrictions and constraints on military assistance contained in the Foreign Assistance Act of 1961, as amended.

1. Section 504(a)—a. (Mundt amendment)—Assistance, other than training in the United States, shall not be furnished to more than 40 countries.

b. (Conte amendment)—Sophisticated weapons systems shall not be furnished to any underdeveloped country without the President determining that it is important to the national interest to do so.

2. Section 505(b), Foreign Assistance Act—No defense articles shall be furnished on a grant basis to any country at a cost in excess of $3 million in any fisacl year unless the President determines:

(1) Country conforms to purpose and principle of U.N. charter.
(2) Defense articles used for own defense.
(3) Country takes all reasonable measures to develop defense capabilities.
(4) Increased ability to defend itself is important to security of United States.

3. Section 505(c) (Church amendment)—No military assistance can be granted to a country having sufficient wealth to maintain and equip its own military forces at adequate strength without undue burden to its economy.

4. Section 505(d), Foreign Assistance Act—Any country which uses defense articles or services in substantial violation of the law is immediately ineligible for further assistance.

5. Section 507(a)—In each fiscal year, the value of bilateral grant aid, not including training, to the American Republics shall not exceed $10 million.

6. Section 508 (Ellender amendment)—Assistance, including training, to African countries can only be for internal security and civic action and cannot exceed $25 million in each fiscal year.

(Section 33 of the Foreign Military Sales bill specifies that the combined total of grants and sales shall not exceed $100 million for Latin American countries and $40 million for African countries in each fiscal year.)

7. Section 509, Foreign Assistance Act—Requires Chief MAAG certification as to recipient countries capability to use defense articles having a value of more than $100,000 unless waived by State and Defense and Congress notified.

8. Section 510 (Fulbright amendments)—The number of foreign military students trained in the United States in any fiscal year may not exceed the number of foreign civilians brought to the United States under the Mutual Educational and Cultural Exchange Act of 1961 in the immediately preceding fiscal year.

9. Section 514, Foreign Assistance Act (10 percent foreign currency deposits)—Requires MAP recipients (except Cambodia and base rights countries) to pay 10 percent of MAP and 10 percent of fair value of excess defense articles (with $20 million annual ceiling on deposits); President can waive any amount if all United States Government costs payable in the foreign currency can be paid without buying more of that currency.

10. Section 604, Foreign Assistance Act—Requires that determination be made for procurement outside the United States that:

(1) No adverse effect on U.S. economy.

(2) Market price of commodities procured in bulk is less than United States.

11. Section 620—"Prohibitions Against Furnishing Assistance." No assistance shall be furnished:

(a)(1)* * * to Cuba nor to any country which furnishes assistance to Cuba.

(a)(3) * * * to a country that allows its ships and aircraft to trade with Cuba.

(b) and (f) * * * to a Communist country.

(c) * * * to a country which fails to pay admitted debt to U.S. citizen.

(e) * * * to a country that has expropriated, nationalized or seized property owned by a U.S. citizen or any business which is owned at least 50 percent by U.S. citizens (Hickenlooper amendment).

(i) * * * to any country which the President determines is engaging in or preparing for aggressive military efforts.

(m) * * * to any economically developed nation capable of sustaining its own defense burden and economic growth, except (1) to fulfill firm commitments made prior to July 1, 1963, or (2) additional orientation and training expenses during each fiscal year in an amount not to exceed $500,000.

(n) * * * to a country that trades with North Vietnam.

(q) * * * to any country which is in default in excess of 6 months in payment to the United States of principal or interest on a loan.

(t) * * * to a country that severed diplomatic reltaions with the United States.

12. Also under section 620:

(j) The President "shall consider" termination of assistance to any country which permits or fails to take adequate measures to prevent damage or destruction of U.S. property by mob action.

(o) In determining whether or not a country is to receive aid, "consideration shall be given" for excluding aid to any country which seizes or imposes a penalty against U.S. vessels fishing in international waters.

(p) No assistance shall be furnished the U.A.R. unless to do so is "essential" to U.S. national interest.

(v) No MAP or FMS credits shall be provided to Greece unless waived by President for national security requirements; waiver can permit obligations up to $71 million in any fiscal year (fiscal year 1971 ceiling).

(w) No MAP, FMS cash or credit sales, or munitions licenses to Pakistan unless President reports East Pakistan situation stable and refugees permitted to return.

13. Section 652, Foreign Assistance Act, specifies that the President shall not exercise any special authority granted to him under sections 506(a), 610(a), and 614(a) of the FAA unless notification is given to Congress prior to intended exercise.

14. Section 7, Foreign Military Sales Act, specifies that unless the sale, grant, loan, or transfer of any international fighter aircraft has been authorized by the Foreign Assistance Act or Foreign Military Sales Act, unless it is commercial sales transaction, such aircraft will not be provided any country except South Vietnam.

15. Section 8, Foreign Military Sales Act, limits the granting of excess defense articles provided under any law by any U.S. Government agency except AID to $185 million at 33⅓ percent of acquisition value (except to Vietnam prior to fiscal year 1973). Excess defense articles granted that exceed the value specified requires transfer of MAP funds to the Treasury. Further, the section specifies that the President must inform the Congress on each decision to provide major excess defense articles that were not previously reported to the Congress. Also requires quarterly reports on the total value of all deliveries.

Major Restrictions on FMS and FMS Credits in Foreign Military Sales Act, as Amended

The following are the major restrictions and constraints on foreign military sales (FMS) and foreign military sales credits contained in the Foreign Military Sales Act, as amended.

Sales to be approved only when consistent with U.S. foreign policy; foreign aid purposes in FAA; extent and character of military requirements; economic and financial capability of purchaser; proper balance among sales; MAP; and economic aid, impact of sales on social and economic development programs, and impact of sales on existing or incipient arms race. (Sec. 1.)

Sales may be made only for purposes of internal security, legitimate self-defense, civic action, or regional or collective arrangements consistent with U.N. Charter, or requested by the U.N. (Sec. 4.)

Sales of unclassified, commercially available items to economically developed nations from new procurement prohibited unless President waives in the national interest. (Sec. 22.)

Sales should not be approved to arm military dictators who are denying growth of fundamental rights or social progress to their people. (Reuss amendment, sec. 1.)

Sales, credits and guarantees cut off for 1 year if country seizes or fines U.S. fishing vessels in international waters, unless President waives cutoff as important to U.S. security. (Pelly amendment, sec. 3(b).)

No FMS credits or guarantees for less developed countries to buy sophisticated weapons such as missiles and jet aircraft for military purposes, except Greece, Turkey, Iran, Israel, Republic of China, Philippines, and Korea; President may waive if financing is important to U.S. national security. (Conte amendment, sec. 4.)

Sales, credits, and guarantees cut off if economically less developed country diverts economic aid, or its own resources, to military expenditures to a degree which materially interferes with its development. (Sec. 35.)

Secretary of State responsible for determining whether there shall be a sale to any particular country and the amount of the sale. (Sec. 2(b).)

President must determine eligibility of purchaser on basis that sales will strengthen U.S. security and promote world peace. (Sec. 3(a)(1).)

Purchaser must agree not to transfer purchased items without prior U.S. consent; prompt report to Congress when such consent given. (Sec. 3(a)(2).)

Sales and FMS credits made only for U.S. dollars. (Secs. 21, 22, and 23.)

FMS credits must be repaid within 10 years. (Sec. 23.)

FMS credit and guarantee standards and criteria; for example, interest rates, established by President. (Sec. 34.)

Offshore procurement with FM credit and guarantee funds required prior Presidential determination. (Sec. 42(c).)

Provide financing by U.S. institutions may be guaranteed by United States upon obligation of 25 percent of face amount of guarantee. (Sec. 24.)

Ex-Im Bank financing of sales to economically less developed countries prohibited. (Sec. 32.)

Cash received from FMS and from repayments of FMS credits cannot be used for financing new credits or guarantees. (Sec. 37.)

Ceilings on grant aid and sales combined: Latin America $100 million and Africa $40 million; President may waive if important to U.S. security up to 50 percent of ceiling over ceiling. (Sec. 33.)

Reporting to Congress required:

Semiannual reports of past sales, credits, and guarantees to or for economically less developed countries (sec. 35(b)).

Semiannual forecasts of sales, credits, and guarantees to or for economically less developed countries (sec. 35(b)).

Semiannual reports of munition list exports by United States or private U.S. firms to any foreign recipient or purchaser (sec. 36(a)).

Annual reports of dollar value of cash and credit FMS orders commitments to order, estimated orders, and estimated commercial orders and commitments to order received by U.S. private firms (sec. 36(b)).

Munitions control licensing requirements remain in force. (Sec. 36(c).)

Arms control consequences must be taken into consideration when evaluating any FMS sale. (Sec. 42(a)(3).)

Secretary of State must advise Congress prior to coproduction (or licensed production outside United States) transactions with details as to its value and probable impact on U.S. employment and on U.S. production. (Sec. 42(b).)

Provisions of Atomic Energy Act and 10 U.S.C. 7307 (requiring separate legislation for major ship loans and sales) unaffected by Foreign Military Sales Act, as amended. (Sec. 44.)

PROCUREMENT COSTS

Mr. PASSMAN. On page 1 of the justifications, you state, "To deny such countries access to U.S. military technology and materiel often forces them to procure inferior or more costly arms elsewhere which are neither in their best interest nor those of the United States." Would you please discuss this statement briefly for the committee?

Admiral PEET. Many nations are desirous of modernizing their military forces and are determined to do so. The reputation of the United States for quality of equipment and for support of the equipment is probably unequaled by any other industrial nation. There is no question but that most friendly and allied nations would prefer to purchase equipment for their force modernization from the United States. Our technology is so great and in such depth that a given, desired military capability, no more and no less, is likely to be available either off the shelf or with slight modification.

Let me give you a specific example. The F–5E is a unique aircraft. It has the capability to fulfill a number of missions: Air defense, close air support, interdiction, and counterinsurgency. The aircraft costs about $2.3 million each, including flyaway costs, peculiar support and training devices, and initial spare parts and engines. Competitor aircraft being offered by third countries include the French Mirage F–1 and the French/British Jaguar. The comparable costs of these aircraft are ——— respectively, and these foreign competitors do not have the flexibility, and most likely the reliability, of the U.S. F–5E, which has been developed so successfully as the international fighter aircraft at the request of Congress.

Third-country competition has been, and is, aggressive. Sales are enhanced by concessions and subsidies by third-country Government, which clearly understand that their sales can serve to increase their influence over their country-customers, to the loss of U.S. influence, and to increase their follow-on sales, to the loss of the U.S. economy.

MILITARY SALES RESTRICTIONS

Mr. PASSMAN. On the same page you also state that "undue restrictions on U.S. foreign military sales credit limit the supply of these credits to less than the demand and thereby lessen the contribution such sales could make to strengthening their security and the United States economy." Could you please tell the committee what restrictions the foreign military sales credit program is now operating under?

Admiral PEET. In addition to the adverse impact created by the annual reductions made by the Congress to the requested foreign military sales credit authorization and appropriations levels some of the other unduly restrictive provisions of the FMS Act are:

1. Regional ceilings on foreign military sales;
2. Repayment of FMS credit within a period not to exceed 10 years;
3. Not permitting the guaranty of credit from private foreign sources;
4. Not allowing the sale of promissory notes without renewed charges against both the credit ceiling or new obligation authority;
5. Not limiting the charge against the credit ceiling and new obligation authority to principal only (any guaranty that covers interest would not be charged);
6. The earmarking of $300 million for Israel.

EQUIPMENT SALES

Mr. PASSMAN. Is it not true that if the United States does not make these sales to the countries they will obtain the equipment from other sources?

Admiral PEET. That is correct. Our experience has been that if the United States cannot make the sale of defense articles to meet otherwise approved and valid military requirements, the country will turn to other suppliers, principally European countries and Canada.

EFFECT OF SALES ON BALANCE OF PAYMENTS

Mr. PASSMAN. Is it not true that if the United States made these sales it would favorably affect our U.S. balance-of-payments position?

Admiral PEET. That is correct. Every FMS credit sale means defense articles and services flowing from the United States and dollars to pay for those goods and services flowing into the United States. Of course, the balance-of-payments impact is much more immediate in the case of cash sales than in the case of credit sales which may be repaid over a period of years. If we had the authority to issue guarantees to private foreign financing sources, the disbursements of dollars from those sources to U.S. suppliers would have a more immediate impact on the U.S. balance of payments through the repatriation of these dollars.

BENEFITS OF TRAINING PROGRAM

Mr. PASSMAN. You indicate that one of the most effective and productive forms of security assistance is the training and orientation of-

fered as grant aid to the military and military-related civilian personnel of recipient nations. Could you please tell the committee what makes this program so beneficial?

Admiral PEET. The most significant benefit of this and precursor instructional programs is its contribution to the security of the United States. The instruction provided to foreign students, by enhancing the foreign country's capability for internal and external defense, improves the total force strength of free world forces and reduces the overall reliance on U.S. forces. The identifiable long-term products of the program, including the highly trained forces of the NATO alliance members, the Korean forces who continue to show their ability and determination, and the increasingly competent Southeast Asian forces —paced by a continuing withdrawal of U.S. combat forces overseas— attest to the success of these programs in support of U.S. security objectives.

Instruction of foreign students in U.S. schools offers particular advantages to the United States. The instruction received is of standard high caliber and produces a general similarity and compatibility of security doctrine, organization, and operations; this is of great importance in emergency situations in facilitating bilateral and regional defense matters. Further, the conduct of the instruction demonstrates instructional standards and techniques which are carried home for application. As a bonus result of any course in the United States, the student gains a firsthand impression of United States, its people, institutions, value standards, and way of life. In many cases, this contact has a long-term favorable influence upon the individual and establishes valuable channels of communications with U.S. military and civilian elements that continue long after the schooling is complete. In certain areas, U.S. military instruction of foreign students accomplished at selected overseas sites, such as the school and academy in the Canal Zone, has certain unique advantages. In this case, travel and operating expenses are reduced; a common foreign language is used where feasible, for the instruction; and the recipient countries contribute to the faculty manning.

SEPARATE TRAINING PROGRAM ITEM

Mr. PASSMAN. Why do you propose this year to separate the training program into a separate line item appropriation?

Mr. VON MARBOD. Dr. Curtis Tarr, the Under Secretary of State for Security Assistance, has been working with us at Defense in a common effort to make more effective use of security assistance programs; and we have identified a need to place greater emphasis on the importance of training provided as grant aid to foreign military and military-related personnel. Because such training is a major means of increasing the self-sufficiency of developing nations, it has long been generally recognized that, dollar for dollar, it represents a particularly productive investment of grant aid. It also fosters close relationships with the military in allied and friendly nations and creates a sense of common purpose which affords the United States a position of influence and thereby enables us to advocate courses of action consistent with our own interests as well as those of the countries receiving the training.

Mr. PASSMAN. Last year it was handled under the regular military

assistance program, and I can't see why there would be any more benefit at this point to have a separate appropriation.

Mr. VON MARBOD. One of several distinct advantages of the proposed change in the legislation is that a separate international military education and training program would elevate the status of training in juxtaposition to the material programs and thus emphasize its ongoing importance as an instrument of U.S. policy uniquely adapted to implement the Nixon doctrine principle of encouraging military self-sufficiency among our friends and allies. The proposed legislative change would also facilitate the presentation, review, justification, and implementation of Defense-administered security assistance by placing each of its three elements—foreign military sales, military assistance program materiel grant aid, and international military education and training—under separate legislative titles.

Mr. PASSMAN. Do you find that after you have trained a military trainee from another country he usually is pro-United States?

Admiral PEET. Yes, sir. Furthermore, he spreads this pro-United States attitude among his contemporaries and subordinates when he returns home.

REPAIR COST FOR EXCESS EQUIPMENT

Mr. PASSMAN. Under the excess defense articles program you indicate that no new appropriation funds, except for necessary repair and shipment, are involved in this form of grant military aid. Could you please tell the committee where the funds are located that will finance this repair and shipment cost?

Admiral PEET. The repair and shipment costs would be financed by the military assistance program fiscal year 1974 appropriated funds.

UNOBLIGATED BALANCES

Mr. PASSMAN. On page 3 you indicate that in fiscal year 1972 under the military assistance program, you had a $2,300,000 unobligated balance. Could you explain to the committee how this happened and do you anticipate any unobligated balance in fiscal year 1973 or fiscal year 1974?

Mr. VON MARBOD. The unobligated balance represents annual appropriations not obligated by the military departments. It is practically impossible to obligate the entire amount allocated. It should be noted that the fiscal year 1972 amount is $3.5 million less than the fiscal year 1971 unobligated balance of $5.8 million. We anticipate an unobligated balance of not less than the fiscal year 1972 amount for fiscal year 1973 and fiscal year 1974.

Mr. PASSMAN. Does this unobligated balance return to the Treasury?

Mr. VON MARBOD. Over the years the unobligated balance has been reappropriated by the Congress for use in the ensuing fiscal year; however, if the amount was not reappropriated, the funds would revert to the Treasury.

TRANFERS OF FUNDS

Mr. PASSMAN. Also on page 3, you indicate, under the military assistance program for fiscal year 1974 that $69.5 million will be transferred from the Department of Defense. Would you please explain this item to the committee?

Admiral PEET. The $69.5 million represents costs incurred to transfer major items of equipment to the Republic of Vietnam in October 1972, when it appeared that a Vietnam cease-fire agreement was imminent. Major items transferred included ——— F–5A aircraft from Iran, ——— F–5A aircraft from the Republic of China, and ——— F–5A aircraft from the Republic of Korea.

During negotiations to obtain this equipment, the United States agreed to bear certain costs of equipment replacement or substitution. These costs are detailed on page 28 of the Congressional Presentation Document. All of these costs are being borne initially by MAP, subject to reimbursement from the military assistance service funded accounts which are appropriated to bear the costs for military equipment transfers to the Republic of Vietnam. Requests for funds to accomplish this reimbursement to the MAP account have been presented to the Congress in the Defense Department's budget for fiscal year 1974.

TRAINING COST

Mr. PASSMAN. On page 7, under "International military education and training program," you indicate that in fiscal year 1972 you trained a total of 40,816 trainees at a cost of $33,952,000 and in fiscal year 1974 you propose to train 43,282 trainees at a cost of $33 million. Could you please explain to the committee how you are able to train so many more trainees in fiscal year 1974 than you were able to in fiscal year 1972 at a lesser cost?

Admiral PEET. The costs of $33,952,000 in fiscal year 1972 and $33 million in in fiscal year 1974 represent the total training program dollars, which consists of formal student training, mobile training teams, DOD/contractor technicians, and other training support costs. Considering the cost directly associated with formal student training, in fiscal year 1972 we trained 40,816 trainees at a cost of $19,535,000, and in fiscal year 1974 we propose to train 43,282 trainees at a cost of $19,809,000. The number of trainees proposed for fiscal year 1974 includes a large number of Cambodians scheduled for training overseas under a third country arrangement. Although the number of trainees involved in this training is large, the cost to conduct the training is considerably low. Additionally, it is noted that the total training program for fiscal year 1972 included MAAG/command support cost of $8,566,000; whereas, commencing with fiscal year 1973 this cost is no longer chargeable to the MAP training program.

SPECIFIC INCREASE IN EXCESS EQUIPMENT PROGRAM

Mr. PASSMAN. On page 8 of the justifications, under the "Excess defense articles program," you indicate that several Latin American countries will receive a substantial increase in their allocation for fiscal year 1974. The countries I see off hand are: El Salvador, Honduras,

Paraguay, and Uruguay. Could you please explain to the committee why those countries are receiving such a large increase?

Admiral PEET. The figures shown as proposed fiscal year 1974 excess defense article programs are best estimates derived by reviewing valid equipment requirements of the countries against projected excesses. The increase for El Salvador and Honduras can be attributed to the fact that assistance in the past has been curtailed because of the 1969 border conflict between those two countries. The increase for Paraguay is based on anticipated greater participation in the excess program in order to acquire vehicles and engineer equipment. Uruguay increase primarily represents possible acquisition of excess S2E patrol aircraft. In addition, increased use of excess defense articles can be attributed, to some degree, to recipient countries interest in achieving self-sufficiency by upgrading within their own resources their in-country repair facilities.

CAMBODIA TRAINING PROGRAM

Mr. PASSMAN. On page 6 under the "International military education and training program," you indicate that Cambodia will receive quite a substantial amount of funds for training and a good deal of this training will be conducted overseas. Would yo please tell the committee who is conducting this training for the Cambodians?

Admiral PEET. Overseas training for the Cambodians in fiscal year 1974 will be conducted in Thailand by the Royal Thailand Government. This training will consist of courses in various basic military skills that cannot be provided in Cambodia.

Additionally, some overseas training in courses primarily involving Air Force techniques and Army intelligence will be conducted by U.S. mobile training teams at specific locations in Thailand.

DETAIL OF LAOS REQUEST

Mr. PASSMAN. On page 75 you indicate that $311.2 million will be provided under the Department of Defense appropriations to Laos. Would you please tell the committee what these funds will finance?

Admiral PEET. The fiscal year 1974 MASF program of $311.2 million for Laos was developed prior to cease-fire developments in Southeast Asia. After a reassessment of the MASF requirements in light of the recent situation in Southeast Asia, the Deputy Secretary of Defense advised appropriate congressional committees of revisions to the MASF program in letters dated June 15 and June 25, 1973. In these letters the fiscal year 1974 MASF program for Laos was reduced from $311.2 million to $100.0 million. A breakout of the original and revised fiscal year 1974 Laos MASF programs will be provided. [The information follows:]

FISCAL YEAR 1974 MILITARY ASSISTANCE SERVICE FUNDED (MASF) PROGRAM FOR LAOS

[In millions of dollars]

	President's budget (January 1973)	Revised program (June 1973)
Personnel support: Subsistence (rice and protein supplements)	18.7	10.9
Operation and maintenance	191.5	75.9
Equipment and supplies	100.7	25.2
Logistic support	4.0	4.0
Requirements office	3.2	3.2
Training	1.5	1.5
Packing, crating, handling, and transportation	22.1	7.0
Travel	.4	.4
Contractual support	57.5	33.9
Fuel (aircraft)	2.1	.7
Procurement	101.0	13.2
Weapons	.2	.2
Ammunition	40.8	
Vehicles	.5	.5
T-41 trainer	.1	.1
Aircraft support	9.0	7.2
Air munitions	50.4	5.2
Total	311.2	100.1

UNDELIVERED EQUIPMENT

Mr. PASSMAN. On page 80 of the justification, you indicate that $12,000 in equipment is still undelivered for Burma as of June 30, 1972, and you also indicate that $696,000 is also undelivered to India as of June 30, 1972. Would you please tell the committee what type of equipment that is, and why it is still undelivered since these programs have been terminated for some time, I assume?

Admiral PEET. The grant aid programs for Burma was terminated in 1968 although a small training program continued through 1971. The undelivered materiel balance is now zero. The dollar balance is being corrected to reflect this fact.

The undelivered balance in the India program will be on the books for several years as the pipeline is being delivered out against a U.S. Government commitment to complete a long-term highway construction project.

Mr. PASSMAN. Would you also please explain the $292,000 undelivered item to the credit of Norway appearing on page 80?

Admiral PEET. The Norway balance should be zeroed out by June 30, 1973. The undelivered balance of funds recorded was held while the cost-shared ship construction project contracts were being renegotiated for final settlement. All ships have been delivered.

Mr. PASSMAN. On page 80 you also indicate that $610,000 is undelivered to the credit of Chile and $481,000 is undelivered to the credit of Ecuador. Is the United States still planning to deliver these items to these two countries considering Chile has nationalized a great deal of U.S. property and Ecuador has seized many fishing boats?

Admiral PEET. The Chile grant aid materiel pipeline is being delivered out on a routine basis although no new materiel programs are being initiated since this country is training only. In lieu of grant aid Chile is purchasing their military needs under FMS. Of the $610,000 balance, $422,000 was delivered in December 1972, leaving an actual

balance of $188,000 which should be delivered out within the next 9–10 months.

The Ecuador pipeline was recently canceled and is now zero.

TRAINING COSTS

Mr. PASSMAN. On page 81 you list a table showing the students trained under the military assistance program from fiscal year 1950 through fiscal year 1972 and I note in this table you have listed trainees from Austria, Belgium, Denmark, France, Germany, et cetera, listing other developed countries also. Is it not safe to assume that the United States does not presently finance trainees from developed countries at this time?

Also, don't the developed countries pay for their trainees themselves?

Admiral PEET. The United States is not financing under MAP the cost of any trainees from developed countries, except for Austria, Portugal, Spain, and Saudi Arabia. A small training program is provided Austrian military personnel to strengthen the independence of that country. The program for Spain is an important part of the quid pro quo terms annexed to the 1970 Agreement of Friendship and Cooperation. A small program is provided to Portugal to strengthen the country's ties with NATO. A training program is provided to Saudi Arabia because of the U.S. continuing interest in supporting its moderate Arab leadership and in maintaining access to Saudi petroleum resources. The other developed countries do pay for their trainees.

Mr. PASSMAN. I now yield to Dr. Long. If you will chair the committee temporarily, Dr. Long, I would appreciate it.

Mr. LONG. We will take a recess in order to vote.

[Recess.]

GAO REPORT ON THE PHILIPPINES

Mr. LONG. The committee will come to order. Admiral, a GAO report on military assistance to the Philippines, April 12, just recently, said:

> The Philippine Government has not provided adequate financial support for its own forces.

In general terms, it says the United States should consider whether aid other than military aid would better serve the mutual security of the United States and the Philippines.

What is your reaction to these conclusions?

Admiral PEET. We have taken note of the GAO finding and of the fact that the GAO report says the Philippines have not provided resources necessary to use effectively equipment provided under MAP, particularly construction equipment. This is, of course, a significant factor in MAP planning, and continuous efforts are being made through the military assistance advisory group to improve utilization. The Government of the Philippines has indicated that steps will be taken to allocate manpower and financial resources to rectify this situation.

Mr. LONG. How long has this situation been going on in which the Philippine Government has not been making proper use of the equipment we have given them and not providing adequate support for its own forces?

Admiral PEET. I would have to check the exact time span.

Mr. LONG. Approximately how long?

Admiral PEET. I do not know.

Mr. LONG. You said you had looked into it. I would have thought this would be something that you would be fairly familiar with.

Admiral PEET. The staff has looked into it. I would be glad to provide additional information.

Mr. LONG. When you ask somebody to correct a situation, I think it is important to know, when you are trying to judge whether they are going to do anything about it, how long it has been going on. If it is just something going on for a few months, that is one thing. If it has been going on for many, many years, you have to ask yourself, are they really going to do anything about it?

Admiral PEET. I do not want to give the impression that it has been going on for many years. I do not think it has. But I do not know exactly how long. I will check and let you know.

Mr. LONG. I would appreciate that.

[The information follows:]

According to the GAO report, which covers the entire period during which we have been providing grant military assistance to the Philippines, it has been going on since the beginning of the program for that country in 1950.

U.S. BASES KEY TO INTEREST IN PHILIPPINES

Mr. TARR. Mr. Chairman, one thing in the Philippine program that we do need to keep in mind is that our interest is conditioned by the presence of two large bases that we have there.

Mr. LONG. I am not quite sure I understand what you mean. You mean we have to give them this stuff even if they do not use it well in order to ——— ——— is that what you mean?

Mr. TARR. I think that the conditions we place upon the programs that they carry out with our assistance are somewhat different, where we have large base interests.

Mr. LONG. Let's spell it out.

You mean we really have to put up with things that are rather distressing or unfortunate simply because ———.

Mr. TARR. Yes.

Mr. LONG. We are ——— basically?

Mr. TARR. Yes.

Admiral PEET. Yes. And any reduction I think in this type of aid would certainly have an impact on their ability to maintain law and order in the country.

Mr. LONG. I must say I like it much better when you spell it out like that.

Admiral PEET. I will do my best.

Mr. LONG. Well, it takes a little while.

Mr. Secretary, had you known whether this condition was going on for some time?

Mr. TARR. Mr. Chairman, I saw either a news item or something that came across my desk to the effect that the Government Accounting Office had made a report, but I have not studied the report.

Mr. LONG. I wish you would tell us about that.

Is this the only way we can get ———? You know there are various different types of ———. We can give better economic aid, help them

more with their education, and everything else. Why do we have to give them military aid ———.

Admiral PEET. I think we do both, Mr. Long.

Mr. LONG. Of course we do, but we are putting an awful lot of military aid into all these countries. We are all worried about it. It is certainly not helping them develop.

Admiral PEET. In the case of the Philippines, we are talking about something in the order of $20 million, which covers all of these things.

Mr. LONG. $20 million?

Admiral PEET. ———, it is——

Mr. TARR. Training.

Admiral PEET. Training, and a whole series of things.

Mr. LONG. Compared with what for economic aid?

Admiral PEET. I do not have that. I will put it in the record.

Mr. TARR. I do not.

[The information follows:]

PROPOSED FISCAL YEAR 1974 ECONOMIC ASSISTANCE TO THE PHILIPPINES

The amounts of economic assistance proposed for the Philippines in fiscal year 1974 are as follows:

	Millions
Development loans	$26.5
Technical assistance	10.0
Public Law 480, title I	35.0
Public Law 480, title II	17.0
Total	88.5
Emergency flood relief	50.0
Total	138.5

Admiral PEET. For 1974, we do not plan any supporting assistance.

Mr. TARR. We put $50 million in there in the flood, too.

Mr. LONG. There are lots of ways we can ——— there besides giving them a lot of equipment they may not make good use of, isn't that right?

GAO/IGA REPORTS

Admiral PEET. Yes, I think there are.

However, regarding the GAO report, there are about seven different organizations that audit these operations around the world. You have to examine each case in detail to determine what is behind it, what the reason is. I would be glad to give you a full accounting.

Mr. LONG. Would you discount the GAO report?

Admiral PEET. I find they do not always have the whole story. This is why these reports bounce back and forth.

Mr. LONG. When you say seven auditing organizations, what are the others?

Admiral PEET. The Office of Management and Budget Reviews these activities around the world; the State Department has an IGA group, etc.

Mr. LONG. The GAO is the only one that is speaking for Congress, though, is it not?

Admiral PEET. Well, the IGA is a child of Congress.

Mr. LONG. What is the IGA?

Mr. TARR. That is the Inspector General of Foreign Assistance, an office created by the Congress for overseeing these programs.

Mr. LONG. They are all children of Congress, but some of them are not responsive.

Admiral PEET. These reports are made by humans who do not always get all the facts.

I would be glad to supply you with all the details in any one of the cases they mention.

Mr. LONG. I do think this business of giving people aid when they are not using adequately the aid we are giving them is something that has to be looked at from the point of view of efficiency. I hope very much that you will give us a reply on that and that we can see that something is going to be done.

Admiral PEET. I would be glad to.

[The information follows:]

The GAO report to which you have reference contends that generally, over the years during which we have been providing grant military assistance, the Government of the Philippines has not devoted a sufficient portion of its national budget to defense. This is a conclusion with which we do not agree, and to which we have responded in the appendix to the report. When I mentioned resources necessary to make effective use of equipment provided through the military assistance program, I was referring specifically to the fact that construction equipment which we furnished in 1967 has been put to marginal use and given marginal maintenance.

The recent floods in central Luzon have made the Republic of the Philippines sharply aware of the currently limited capability of its construction battalions, and have focused governmental interest on the need to improve the engineer capabilities of its armed forces.

MILITARY VERSUS ECONOMIC AID FOR PHILIPPINES

Mr. TARR. We are about to begin new negotiations with the Philippine Government on those bases. ———. So many of these things will come into play as we become involved in negotiations.

Mr. LONG. Do you agree with the GAO conclusion that military aid to the Philippines should be decreased in favor of economic aid?

Admiral PEET. Mr. Chairman, if there were a choice, and we could have one or the other and accomplish what we need to accomplish in the best interests of the country, I would always be in favor of economic aid as opposed to military aid.

Mr. TARR. It depends on the wishes of the Government, however. The Government of the Philippines certainly has a vote in the way in which they spend potential resources available to them.

Admiral PEET. One thing certain in this business, if you have stability in a country, you may make some progress, but if you do not have stability, you certainly will not make any progress.

Mr. LONG. Are you operating on the assumption that the customer is always right, no matter what he wants?

Admiral PEET. I hope not.

Mr. LONG. You talk like that, though, for example——

Admiral PEET. I am here to defend the programs.

Mr. LONG. You say that if we do not give them military aid on credit, these countries will buy their arms elsewhere. Aren't you really saying that the customer is right and that we are going to satisfy him?

Admiral PEET. No, I do not think I am saying that the customer is necessarily right. What I am saying is that if the customer is going to buy an airplane regardless, I would rather have him buy a U.S. airplane than a French or a Soviet airplane.

Mr. LONG. What would you say about a drug addict if he is going to buy heroin, would you rather have him buy it from you than from somebody else?

Admiral PEET. Do you think that is a comparable case?

Mr. LONG. Well, isn't that your argument?

Admiral PEET. I do not——

Mr. LONG. Isn't your argument that you are justifying military aid on the basis that it is better to buy weapons from us if they are going to buy it. I would say you can carry that to a ridiculous conclusion. I have just done that.

Admiral PEET. The example that I used was an airplane.

Mr. LONG. Airplanes—just like drugs—can kill people, many people.

Admiral PEET. I know. But we attempt to be very responsible as far as an airplane is concerned.

Mr. LONG. In what sense?

Admiral PEET. In the sense that, in many cases, we sell them aircraft with limited capability, we make sure, whenever we possibly can, that it is a defensive aircraft rather than one with strong offensive capabilities.

We try to be responsible in this regard.

SUPERSONIC PLANES TO LATIN AMERICA

Mr. LONG. Are you selling these underdeveloped countries any supersonic fighters, fighter planes?

Admiral PEET. Of course the definition——

Mr. LONG. You know what a supersonic plane is?

Admiral PEET. Yes, I do, but there is the question of developed and underdeveloped countries.

Mr. LONG. The Philippines are——

Admiral PEET. In Latin America we have not been selling supersonic fighters. However, the State Department is considering some on a case-by-case basis.

The F–5E aircraft is considered a supersonic aircraft.

Mr. TARR. It is.

Admiral PEET. Yes, it is.

Mr. LONG. He gave us the same story yesterday. A sophisticated weapon depends on what you mean by a sophisticated weapon. I am trying to get to a particular weapon. A supersonic plane is a sophisticated weapon, is it not?

Admiral PEET. Yes, sir.

Mr. LONG. For a developing country, or a poor country?

Admiral PEET. I am not trying to be facetious. It is better in some cases for a lesser developed country to have a sophisticated weapon.

Mr. LONG. Why?

Admiral PEET. It is easier to maintain and they have the advantage of the advanced technology. It will cost them less in the long run in many cases. There are many reasons.

Mr. LONG. What is the use, could you tell me what is the use of a supersonic plane for a country in Latin America?

Admiral PEET. For their self-defense.

Mr. LONG. Or the Philippines either, for that matter. Who are they supposed to use it against?

Admiral PEET. Each country has its own concerns.

Mr. LONG. Yes, name one.

Admiral PEET. Brazil, Chile.

Mr. LONG. Who is Brazil going to use it against?

Admiral PEET. She feels she needs it for her own self-defense and internal stability.

Mr. LONG. Against whom?

Admiral PEET. Against her neighbors.

Mr. LONG. Against which of her neighbors?

Admiral PEET. She has border problems.

Mr. LONG. Name the countries; do you know them?

Admiral PEET. Venezuela is a neighbor—also Peru and Bolivia.

Mr. LONG. Are they friends of ours?

Admiral PEET. Yes, I hope they are.

Mr. LONG. So we are selling planes, and you are trying to justify sale of planes to Brazil for weapons to be used against other countries that we are friendly with?

Admiral PEET. No, sir.

Mr. LONG. Is it not true?

Admiral PEET. No, it is not. I do not sell a single aircraft in Latin America unless it is the policy of this Government to do so.

Mr. LONG. You are trying to justify it.

Admiral PEET. Yes.

Mr. LONG. All right, we are trying to find out the justification.

BRAZILIAN NEED FOR MODERN AIRCRAFT

Admiral PEET. Take Brazil as an example. She feels she needs modern aircraft.

Mr. LONG. Against countries which are friendly to us?

Admiral PEET. I do not say that it is against countries which are friendly.

Mr. LONG. They are the only possible targets, are they not?

Admiral PEET. No, she has her internal stability to maintain.

Mr. LONG. Would you use a supersonic plane against guerrillas?

Admiral PEET. The F–5E aircraft was designed as a multimission aircraft. For example, it could be deployed in air defense, close support, interdiction, and counterinsurgency.

Mr. LONG. How fast do they go?

Admiral PEET. We do not even have any in our inventory.

Mr. LONG. How fast do they go?

Admiral PEET. It has flown 1.6 mach or almost 1,200 miles per hour.

Mr. LONG. And you use them against insurgents? How do you find insurgents? Have we not been through all this in Vietnam?

Admiral PEET. I am having difficulty tracking the logic.

Mr. LONG. You sure are. How do you use something against a guy who is in the woods or merging into the woodwork, how do you use fancy weapons like this against him?

Admiral PEET. You have to take into consideration the nature of counterinsurgency warfare. This aircraft was designed and built for that purpose among others.

Mr. LONG. Explain to me how it is done.

Admiral PEET. Air defense.

Mr. LONG. How do you find the insurgent and——

Admiral PEET. They do not use it in cases such as that where they are in the woods. But it carries weapons and they can use it to drop weapons, and fight units of the river traffic—things of that sort. We found that oftentimes in Vietnam, for example, they were up against high performance equipment given to the enemy by other countries.

U.S. MILITARY POSTURE AND ADVICE

Mr. LONG. Are you still maintaining that the type of warfare that we tried to conduct in Vietnam was in our best interest, using all this fancy equipment, high-powered weapons and everything against people who are almost impossible to find?

Admiral PEET. Mr. Long, I am not here——

Mr. LONG. You are a military man. Are you still maintaining that type of posture? I am very interested to know. I am not going to talk you out of it.

Admiral PEET. I am not here to defend Vietnam or how we got into it. I do not think the military got us into Vietnam. But once we were asked to do a job, I hope we did it and we did it well.

Mr. LONG. That is your position now, but, of course, you were not around 10 years ago when I sat on the Armed Services Committee and listened to advice from the generals.

Now the posture is that the military did it under orders from the President. I do not want to take President Johnson off the hook. He made a great bungle. But he made it with some of the most atrocious advice from the military that a President has ever gotten. If you people have not realized that by this time, you are not doing a service to yourself or to your country.

Admiral PEET. I happen not to agree with you.

Mr. LONG. Go back and read some of the testimony 8, 10 years ago, before the Armed Services Committee.

Admiral PEET. I think this country is pleased, Mr. Chairman, with a military that is completely subservient to civilian control. When you ask us for military advice, we give you military advice.

Mr. LONG. Well——

Admiral PEET. We do not question a decision that is made contrary to our advice. This country is blessed by having that type of military.

Mr. LONG. You doubtless believe that when you say it, and there are lots of people who agree with you. In a sense, you are right.

Admiral PEET. Yes, sir.

Mr. LONG. But there are ways of getting questions asked, you know that.

Admiral PEET. Yes, sir.

Mr. LONG. There are ways of giving advice which give a President no choice other than to go ahead with the particular course of action. We are getting way far afield from my original question, but the President, who was unwarranted even on the basis of the military advice he got from sending so many people to Vietnam, nevertheless got all kinds of advice and information, because I was there and I got it all at the same time—advice that certain military tactics would be successful in Vietnam. And they were not.

Now, I would have hoped by this time you would have learned that lesson. If you have not learned that lesson, you are not going to be

in the position of advising the political leaders of the future, because a political leader cannot tell the military we want something done and make that decision in a vacuum. There has to be a whole body of information on which he bases it.

Admiral PEET. Absolutely.

Mr. LONG. Is that not true?

Admiral PEET. Yes.

Mr. LONG. OK.

CAMBODIAN "PHANTOM TROOPS"

I assume you are aware of news reports in the Wall Street Journal and other papers about the widespread corruption in the Cambodian Army?

Admiral PEET. Yes, sir.

Mr. LONG. Why should the United States give $167 million in grant military assistance to Cambodia when much of that money goes into the pockets of corrupt officers?

Admiral PEET. Given the question the way you state it, there is no reason in the world for giving that much grant aid.

Mr. LONG. You have heard, have you not——

Mr. SHRIVER. When did you quit beating your wife?

Mr. LONG. You have not heard of all of ghost armies over there, of 120,000 people?

Admiral PEET. Yes, sir, we are very familiar with the report. We abhor the payment of nonexistent troops, and are doing everything we possibly can to correct the situation.

Mr. LONG. What are we doing?

Admiral PEET. We have a detailed report to give you on this matter. We have provided it to the Congress on many occasions.

Ambassador Swank is following the problem daily. Here again, this is an AID program. It is not a situation of giving them dollars which they are passing out. That is not the case.

[The information follows:]

First, it should be clearly understood that there is no connection between military assistance program grant aid and the reported payroll practices.

The United States releases foreign currencies generated by AID-financed commercial imports programs and Public Law 480-financed food-for-peace programs as budgetary support to the Khmer Republic. The United States-Khmer project agreements provide that these funds will be used for defense budget needs, primarily pay and allowances. Although these currencies are not released for pay of specific units, they constitute a significant portion of the Khmer military budget.

The payroll practices were an outgrowth of the rapid expansion of the Khmer armed forces from 35,00 to 200,000-plus troops in a wartime environment. The manpower, personnel, and finance systems carried over from the French were incapable of dealing with this expansion. These systems, which provided for recruitment, payroll computation and payment by unit commanders, were subject to abuse by unscrupulous commanders. Militarily as well as economically, significant changes were required in the Force Armee Nationale Khmer (FANK) management structure to bring all of the organizational, management, and financial problems of the FANK under control.

In the payroll area, much has been accomplished. Recruitment policies have been changed. Personnel identification practices have been installed. Payroll computation and payment responsibilities have been withdrawn from unit commanders and assigned to central finance regions. Manpower and payroll strength reporting has been improved. In addition, the project agreement of calendar year 1973 contains seven specific management provisions which must be complied with prior to release of funds.

Progress has been made, but much remains to be done. Central finance activities in particular must be expanded from military regions II and III to all military regions. Hopefully, this can be accomplished within the next several months.

Mr. LONG. Just how is it done?

Mr. TARR. Mr. Chairman, the $167 million that you talk about represents materiel programs that are transferred to the Cambodian Army. Now if small parts of this material have actually been sold and the money pocketed by the officers, we do not know of such instances.

Mr. LONG. Does that not actually happen? You do not know of instances of that?

Mr. TARR. No.

Mr. LONG. Despite all types of newspaper reports?

Mr. TARR. The newspaper reports——

Mr. LONG. You do not believe the newspaper reports?

Mr. TARR. No, no, no. The newspaper reports refer to something quite different from what we have just discussed. The newspaper accounts refer to payments made by the Cambodian Government to troops in the Cambodian Army.

Mr. LONG. That is one type of corruption, yes.

Mr. TARR. Yes.

Mr. LONG. There have been others, have there not?

Mr. TARR. Well, this is the only type about which I am aware.

Mr. LONG. Outside of that, Cambodia is a perfectly clean, aboveboard operation, except for the fact they have a ghost army of about 40 percent of their entire army?

Mr. TARR. It is an Oriental country.

Mr. LONG. And that is all there is to it? We cannot do anything about it?

Mr. TARR. We are certainly trying to improve the payroll practices in the Cambodian Army, yes. But there is a lot there that obviously we cannot influence over a short period of time.

Mr. LONG. Are we asking for more money this year for military assistance and supporting assistance for Cambodia?

Mr. TARR. We are asking for $180 million. When we put the budget together, we formulated it on the basis of what we could best predict at that time. Precisely what our needs will be we obviously cannot know. But the demands, if we are able to get a cease-fire, would probably be less than what we have asked for.

Mr. LONG. You are asking for $180 million in 1974?

Admiral PEET. Yes; $180 million.

EFFECT OF INDOCHINA AID CUTOFF

Mr. LONG. A Washington Post article of June 4, just the other day, reports that some American military officials in Vietnam feel a cutoff of U.S. military aid to Indochina would result in a reduction in the violence between the opposing forces.

Have you seen staff reports from the field arguing this point of view? This is American military officials in Vietnam who have put forth that view.

Mr. TARR. Mr. Chairman, I have not seen any cables that came from the field that indicated this, but I think it is clear that if we did not supply ammunition to the Cambodian Army, there wouldn't be any shots fired.

Mr. LONG. We are talking about Vietnam now.

Mr. TARR. The same is true in Vietnam. If we cut off the supply of ammunition we will cut off the supply of firepower.

Mr. LONG. I have a report which says U.S. military officials here are, "watching the results of the reduction with interest in search for clues about what would happen if Congress cut off the supply of military aid to the governments."

Mr. TARR. Does this refer to the B–52 sorties?

Mr. LONG. This is an article from a June 2 newspaper the one I am reading right now.

Mr. SHRIVER. A newspaper article?

Who are they talking about? What people are they referring to? "Reliable sources"?

Mr. LONG. I am just asking whether it is true that military officials have said this. I am not saying it is true. I am asking them if they know anything about it.

Mr. SHRIVER. They have said they don't.

Mr. LONG. Does that mean you are saying there weren't any such statements?

Mr. TARR. Were not any what?

Mr. LONG. Any such military suggestions that a cutoff of military aid to Indochina would result in a reduction of violence. Isn't that the main effect of our putting military in there, to simply step up the action?

Mr. TARR. I am not aware of any report, Mr. Chairman.

Mr. LONG. You are not aware of the report?

Mr. TARR. Of any report.

Mr. LONG. Are you, admiral?

Admiral PEET. No, sir, but it certainly follows that if we cut out the ammunition it will certainly reduce the violence.

REPORTED SALES OF MILITARY GASOLINE

Mr. LONG. I have a report here that military gasoline has a way of winding up on sale to the public of South Vietnam and that a cutback of supplies is largely an attempt to cut back on black marketeering.

Admiral PEET. Mr. Chairman, we investigate as thoroughly as we know how every such report that we get.

Mr. LONG. They all turn out to be unfounded?

Admiral PEET. No, we don't say that. Some of them do have foundation, and we do what we can about it. We are happy to report the results of our investigation.

Mr. LONG. Do you feel that your field staff and Washington staff are giving you all the information you need to make informed decisions?

Admiral PEET. You never get as much information as you would like, but the field reporting has been excellent. You have to do what is best in your judgment.

Mr. TARR. Mr. Chairman, in France in 1944 it is alleged that one of the reasons that Patton's tanks were stopped over on the border of Germany was that so much gasoline had been siphoned off from our pipelines for civilian uses that we did not have sufficient fuel to carry us forward. The difficulty with gasoline is that when a lot of people can use it, it is extremely hard to keep control over it.

REPORTED JET SALES TO BRAZIL

Mr. LONG. I have a Washington Post article of May 31 which reports that Brazil will buy 48 American F–5E jet fighters at a price of $1.6 million each or $77 million. Is that report accurate?

Admiral PEET. I can speak to that. We are talking about it, but the transaction has not been consummated.

Mr. LONG. It hasn't been made?

Admiral PEET. No, sir.

Mr. LONG. Would it be a credit sale or a cash sale?

Admiral PEET. We don't know. It hasn't been decided yet which it would be.

Mr. LONG. Can you tell us what some of the options are?

Admiral PEET. It could be either.

Mr. LONG. It could be a credit sale?

Admiral PEET. Yes, sir.

Mr. LONG. You have already talked about why Brazil needs a supersonic fighter.

Admiral PEET. Not very satisfactorily.

Mr. LONG. Not very satisfactorily, no. Are you saying it is entirely against internal subversion?

Admiral PEET. No, sir, I am not going to say that.

Mr. LONG. You won't say that none of these could be used against other countries bordering Brazil?

Admiral PEET. Yes, sir, they could be.

Mr. LONG. And these other countries are just as good friends of ours as Brazil, right?

Admiral PEET. They are friends of ours, we hope. We hope all countries of Latin America are and continue to be friends of ours. We also hope we continue to have influence with them. I think that is important to us, at least from a Defense Department point of view. That is the way we look at it.

Mr. LONG. Do you think it makes sense to sell to countries that are friendly to us, weapons to be used against each other?

Admiral PEET. We know that when we decided not to do so in the case of Latin American countries, they bought the Mirage aircraft.

Mr. LONG. I asked you a while ago about the drug addict and you didn't feel it was apropos.

Admiral PEET. I felt we were comparing apples and oranges.

Mr. TARR. I feel about your analogy of selling heroin to a heroin addict——

Mr. LONG. On the ground that if you don't sell it to him he will get it somewhere else. The drug pushers soothe their consciences with that aspect, you know, that they can sell drugs to the drug addict, because if they don't, somebody else will.

Mr. TARR. We have to keep in mind that we have airplanes ourselves in our own inventories, our own national forces use them. We sell these aircraft. I think the analogy you brought up does not really serve a useful purpose.

Mr. LONG. You feel, in other words, that jet planes are a good thing, a very wholesome thing, and that we shouldn't worry about what they are used for, is that it?

Mr. TARR. I feel that nations have a natural inclination to maintain some military forces, even though they may be on relatively friendly terms with their neighbors.

Mr. CHAPPELL. Will the gentleman yield for a question at this point.

Mr. LONG. Sure.

IMPORTANCE OF MAINTAINING STABILITY

Mr. CHAPPELL. Isn't it true, Admiral and Doctor, that in everyone of the South American countries, Brazil included, you have a high contingency of insurgency going on all the while which is sponsored by the Communist nations and therefore it is impossible to determine at any given moment when one of those countries will turn communistic and attempt to use that communistic force against one of our friends? Therefore, it is important and essential for us to keep those countries stable which are friends of ours so we can help them be an effective deterrent against the further spreading of communism in South America. Isn't that the real answer to that?

Mr. TARR. I believe it is certainly part of it, but I think that in addition there are two areas where we are particularly concerned about insurgency ——— but there are other places as well.

Mr. CHAPPELL. Isn't it true that Cuba is the schooling place for Communists in South America, and isn't it true that they are perpetually trying to gain influence over each and every one of those countries and it is therefore important for us to keep ourselves in a stable position with those countries and lend every influence toward friendship with these nations rather than have them turn to the Communist world for alliances?

Mr. TARR. That is what we would hope. In addition——

Mr. CHAPPELL. That is what you are trying to do, isn't it, Doctor?

Mr. TARR. Yes, and in addition we hope that these sales programs will make it possible for us to have a continuing relationship with these countries, a relationship that is essential to the servicing of the equipment and the maintenance of United States technical personnel in these countries.

Mr. CHAPPELL. Isn't it true, too, that the South American mind is such that it feels it has to be on the winning side, or it is going to be gobbled up in complete destruction, different from our own situation in this country? With them one must win all the way or he will lose all the way, which is to say if we give a weak image or a weak front to these South American countries, or a weak position toward communism, then they are going to be inclined to say, "If the United States isn't going to be strong against communism, then by golly we had better make our deal with both sides. We had better play both sides against the middle and we had better make our alliances with the Communist nations and with the United States." Isn't that a fact? Isn't that the way the mind works down there?

Mr. TARR. It is possible.

Mr. CHAPPELL. So it is an important thing to maintain our friends down there with up-to-date equipment. We wouldn't sell them a pocketknife when they needed a sword, would we?

Admiral PEET. I would hope not.

Mr. YATES. Would you sell them a sword when they needed a pocketknife?

Mr. CHAPPELL. No, I wouldn't, but I would try to be reasonable when this situation might occur, and try to make certain we do keep the stability where they will not need either the knife or the sword; but as long as it is there, I think we have got to retain a strong position.

Mr. LONG. Is the gentleman from Florida stating his general position? I just want to find out what his thinking is.

Admiral PEET. We have turned down a number of sales to Latin America because we felt that they didn't need the sword as opposed to a penknife.

Mr. LONG. Do you accept this position as he states it, the position of the gentleman from Florida?

Mr. YATES. Mr. Chairman, I can't hear the question.

Mr. LONG. I am asking the gentleman whether he accepts it.

Mr. CHAPPELL. I would like to know that, too. I would like to know if my position is wrong on that.

U.S. SUPPORTS RECIPIENT PERCEPTION OF NEEDS

Admiral PEET. The position that I accept is that they are sovereign countries just as the United States is, and just as the United States perceives its need for aircraft, many of those countries perceive their need for aircraft, and we can't play God. We can't be paternalistic and say whether they will have them or whether they won't have them.

Mr. LONG. I am not sure you have answered the question of whether you agree with the gentleman. I think he stated a position. I don't agree with it, but I think he stated it extremely clearly from his point of view. I just want to know whether you agree with it.

Mr. CHAPPELL. I would like to know, too.

Admiral PEET. I find that I don't have any difficulty with it.

Mr. LONG. You have no difficulty with it at all?

Admiral PEET. Not with his statement. I am much closer to his position.

Mr. LONG. Do you have any difficulty with his statement?

Mr. VON MARBOD. I don't have any difficulty with the gentleman's statement.

Mr. LONG. You agree with it?

Mr. VON MARBOD. I find it very articulate.

Mr. LONG. Do you agree with it?

Mr. VON MARBOD. I am not sure, Dr. Long, that I heard the entire statement.

Mr. LONG. I thought he made it very clear. I thought his voice was very loud and clear. He has been talking to constituents for many years. He is a very able and articulate man. Do you agree with it, Mr. Tarr?

Mr. TARR. I agree with it, with the addition that I placed upon it. There are, I think, valid needs in the eyes of people in Latin America for military forces above and beyond what is necessary to combat insurgency.

Mr. LONG. So that quite aside from the insurgency question, you think we should give them weapons or finance them or sell them or

otherwise help them get weapons to use against their neighbors who also are asking for weapons to use in turn against them.

Mr. TARR. Mr. Chairman, one thing I think that we should make clear is that we do not intend these weapons in every case to be used.

Mr. LONG. Do they have——

Mr. TARR. Quite obviously. Let me give you an example. There are two nations on the Korean Peninsula. By all the rules of logic, you could argue that both of these nations would be better off if they weren't armed.

Mr. LONG. Are we financing the North Koreans?

Mr. TARR. We are not financing the North Koreans.

Mr. LONG. Are we giving them any weapons?

Mr. TARR. We are not giving them any weapons.

Mr. LONG. Would you approve it if we did?

Mr. TARR. I would not approve it.

Mr. LONG. All right. Then why should we be doing this in Latin America?

Mr. TARR. But the point is that——

Mr. LONG. Or in any other friendly country? Why should we be arming friendly countries against each other? You have already admitted now that you approve of sales of weapons above and beyond the needs to combat insurgents.

Mr. TARR. Because these countries are friendly with us. You are automatically assuming that, by logical induction, they will never have sore points in their issues between themselves. This is absolutely fallacious because——

Mr. LONG. The point is, we are trying to help them.

Mr. TARR. Because A is friendly with B, and C is friendly with B, A is not necessarily friendly with C.

Mr. LONG. Of course. I thought that was the whole point.

Mr. TARR. This is exactly what you have argued. You said these people are all friends of ours, and so why do we sell them these things that might be used against each other.

Mr. LONG. So they can be used against each other. You have just pointed out they may not be friendly with each other but they are good friends of ours. We are trying to help them, but of course doesn't that make the offense even greater, knowing that they may fiight with each other, knowing they may have differences with each other. We nevertheless persist in helping countries, both of which are friendly with us, to arm against each other. Does this make sense?

NEED TO MAINTAIN BALANCE OF MILITARY FORCES

Mr. TARR. Because experience has generally shown that if these people have some capability to defend their interests, there is a better chance for peace in an area than if there is no balance of military forces.

Mr. LONG. You are arguing then that there is a better chance of peace between two countries that are more heavily armed against each other than there is if they don't have many arms. Is that the type of thinking that you want me to accept?

Mr. TARR. The point is that you cannot govern what both sides will have.

Mr. LONG. That is a different matter.

Admiral PEET. But that is the history in Latin America.

Mr. LONG. Of course we have had a history of financing India against Pakistan, and Pakistan against India.

Admiral PEET. Yes; we did provide assistance but not for that purpose.

Mr. LONG. And a number of other countries. By this time I had thought we were backing away from that type of thing because we had been burned so badly.

Admiral PEET. I think we have shown a great deal of restraint and will continue to show restraint.

Mr. LONG. I agree that these are sovereign countries. We can't force them not to buy, or prevent them from buying weapons, but that is another question. What you are proposing here is that the American taxpayer reach down in his pocket and take money that we need desperately for local projects to help them directly or indirectly to arm against each other.

Admiral PEET. Let me talk to that.

Mr. LONG. You are trying to justify it?

Admiral PEET. That is not what we are doing in the case of Brazil.

FAVORABLE EFFECT OF CREDIT SALES

Mr. LONG. I just asked you if you were proposing to do this with credit sales, and you said that was a possibility.

Admiral PEET. If we do provide credit, it would be a sale to Brazil at the cost of money to the United States. That would be a loan over 8- to 10-year period; and at the current rate, we would receive 6⅞ percent interest.

Mr. LONG. Did you know, Admiral, that I have constituents back home, and we all do, who are trying to get money from the Small Business Administration, who would love to get money at 6 or 7 percent, would love that kind of a deal, and cannot get it because we don't have it?

Admiral PEET. In addition almost all the money involved is spent in the United States. The equipment is manufactured here, the business is here, and it has a very favorable impact on the balance of payments.

Mr. LONG. Would you argue that if we give a loan to a small business in Maine or Mr. Chappell's district, that money wouldn't be spent in the United States?

Admiral PEET. No, sir.

Mr. LONG. It will, won't it?

Admiral PEET. Absolutely, and I am all for such a loan.

Mr. LONG. The difference is that we are helping American business and at the same time keeping the goods in the United States as well as the money, whereas in your case we are sending goods out of the United States, and not only that the goods are being used to arm countries against each other that by your own admission, are friendly to us but not necessarily friendly to each other. By this action of ours we may foment war.

UNITED STATES SELLS ON CASE-BY-CASE BASIS

I would like to make another point that Mr. Chappell raised. I think he raised a valid point. That is holding down subversion. We all want to do that. Have any of these weapons prevented any countries from being overcome by subversion? In the case of Peru, we sold them some pretty hot shot weapons, and in the case of Chile we sold them quite a few good weapons. That didn't keep them from going Communist or Socialist when the time came, did it?

Admiral PEET. In the case of both of those countries we denied them the "hot shot" weapons. We have not sold any significant items to Peru.

Mr. LONG. Maybe later on but we sold weapons to them before that time because I remember very clearly that we did.

Admiral PEET. It is a country that went to the French and bought Mirages when we denied them the F–5.

Mr. YATES. What country are we talking about?

Admiral PEET. Peru in this case.

Mr. LONG. I can remember after the Long-Conte amendments went through—that cut off any aid to countries that were diverting their own resources or the resources we gave them to buy sophisticated weapons systems. I was down in Chile about 6 or 8 months after that, a year after that, and they were very angry with us at the time. That was, of course, under the old regimes. I spent an hour with Belande and we had already sold them considerable quantities of weapons. And they went out and bought others, but it didn't keep them from going Socialist or Communist when the time came, because when they went, they went by election.

Admiral PEET. And it didn't keep them from buying from foreign countries either.

Mr. LONG. The point we are trying to make is that giving countries very fancy and sophisticated weapons is probably a very blunt instrument so far as holding or keeping them from adopting a political system which we don't like, isn't that true?

Admiral PEET. Yes.

Mr. ROUSH. Will the chairman yield for a question?

Mr. LONG. Yes.

JUSTIFICATION OF F–5E SALES

Mr. ROUSH. These planes being proposed for sale to Brazil, are they considered sophisticated weapons?

Mr. YATES. The F–5E, isn't it?

Admiral PEET. I think many people would consider any supersonic aircraft a sophisticated weapon. However, that particular weapon, the F–5E, is designed for foreign sale. It is designed for that purpose. It gives them an air defense capability and some limited offensive capability.

Mr. ROUSH. According to this document, which I have before me now, section 4 of the Foreign Military Sales Act precludes the use of foreign military sales credit for the purchase of sophisticated weapons systems, is that correct?

Admiral PEET. Yes; unless the President makes a finding, a Presidential determination, which he has done in this case.

Mr. LONG. Which he always will. It is a big loophole.
Mr. YATES. Will you yield for a question?
Mr. LONG. I will be glad to.

RESULT OF REFUSAL TO SELL

Mr. YATES. Is our relationship less close to Peru because we did not sell them supersonic aircraft, and they bought French supersonic aircraft?
Mr. TARR. I think it is; yes.
Mr. LONG. It is less close.
Mr. TARR. It is less close for two reasons. The first one is that there is a feeling of hostility there as a result of our refusal to sell. The second is that they have not been entirely satisfied with the French equipment, and they blame it on us.
Mr. LONG. They don't blame it on the French?
Mr. TARR. They blame it on us because they wanted to buy ours in the first place.
Mr. LONG. They don't blame it on the French?
Mr. TARR. I guess they blame it on the French too, but we are not necessarily enhanced by their animosity toward the people from whom they purchased it.
Mr. YATES. Why did we refuse to sell them the aircraft they wanted? Did they want Phantoms? Was this the aircraft they wanted or were they willing to accept other aircraft?
Admiral PEET. It was the F–5A, which is the first version of the F–5.
Mr. YATES. Of the F–5?
Admiral PEET. Yes, sir.
Mr. YATES. Not the F–4?
Admiral PEET. No, sir.
Mr. YATES. And the F–5A, which we refused to sell them, are now the subject of a sale to Brazil, or possible sale?
Admiral PEET. A later model, the F–5E.
Mr. YATES. The same general plane though?
Admiral PEET. Yes; but more capability.
Mr. YATES. It still isn't up to the Phantom?
Admiral PEET. No.

AIRCRAFT SALES TO KUWAIT AND SAUDI ARABIA

Mr. YATES. Mr. Chairman, may I continue for a few moments?
Why are we proposing to sell Phantoms to Saudi Arabia and to Kuwait?
Mr. TARR. Obviously it is a complicated question. Our national interests in the area are substantial from several points of view. We have a historic friendship with the State of Israel. We have——
Mr. LONG. Is that friendship being helped by our sale of weapons to Kuwait?
Admiral PEET. We hope that it is not being hurt.
Mr. LONG. Have the Israelis told you that?
Mr. TARR. The Israelis don't see it that way, but obviously we are able to do some thinking on our own. The Government of Kuwait is

faced with a very difficult situation. The Government of Iraq is building a base very near the border with Kuwait. The entrance to the channel is actually guarded by two unoccupied islands. The area offshore of the islands may contain oil. The Government of Iraq wants to encourage the Russians to use their bases, and probably will be successful in that regard. The Government of Iraq, who are developing a base, want control of those islands. The Government of Kuwait does not want to give them up.

Mr. YATES. Which country has sovereignty over those islands?

Mr. TARR. Kuwait. Also the surveyors have never defined the boundaries very well between some of these nations in the desert areas. A small amount of land is worth a great deal of money in some parts of the Near East, and so the people in Kuwait say, "We have a real problem." For that reason we have talked with the Government of Kuwait about military equipment. We have not yet talked with them about F–4's.

Mr. YATES. Of course the newspapers have indicated that——

Mr. LONG. Will the gentleman yield?

I understand that this is going to be a credit sale, is that correct?

Mr. TARR. To Kuwait?

Mr. LONG. No?

Mr. TARR. No.

Mr. LONG. It is going to be entirely cash?

Mr. TARR. We have not heard about any credit sales.

Mr. LONG. I would like to know whether we are considering selling some of these weapons to Kuwait on a credit basis.

Mr. YATES. It is the richest country in the world per capita.

Mr. TARR. We are not.

Mr. LONG. You can assure us that these sales will be cash sales?

Admiral PEET. Certainly there will be no FMS credit. They can deal with the Export-Import Bank.

Mr. TARR. Or they might borrow from the Chase-Manhattan Bank.

Mr. LONG. This is all part of our administration policy. But it is just a different credit pocket that it is going out of; isn't it?

Mr. TARR. But the point is that we have talked with them about military equipment which we think they have every reason to believe that they should have.

Mr. YATES. In your justification I don't find any reference to Kuwait.

Mr. TARR. The reason that there is no justification for Kuwait is that if the sale were a cash sale, it would not be involved in this particular program for which we are seeking funds.

WORKING FOR MIDDLE EAST BALANCE OF POWER

Mr. YATES. I would imagine that Kuwait could pay cash for these planes, too. Does it make sense to sell F–4's to any of these countries?

Mr. TARR. In that area, many of the countries are worried about Soviet deliveries of high performance aircraft that are probably an equal of the F–4.

Mr. YATES. You are talking about the Mig-23?

Mr. TARR. Yes. In the Mig family, once you get up to Mig-19 you talk about aircraft with capabilities in particular regards, and some of the more powerful aircraft do not have the maneuverability and so forth, but we are talking in part about 21's and 23's.

Mr. YATES. My question was why does it make sense to sell F–4's at this time in an area like the Middle East which is a virtual tinderbox which some experts fear will disturb the balance of power. Just the mere announcement of possible sale may upset that, let alone the actual sale itself; isn't that correct?

Mr. TARR. I doubt it.

Mr. LONG. Isn't this almost certain to bring about requests from other countries in the Near East for weapons?

Mr. YATES. It isn't only weapons. It is the Phantom. I can understand the United States selling your F–5 or another plane like that, which doesn't have the range or the capability of the Phantom. The Phantom has the capability of reaching all the cities of Israel from even the remotest areas of Saudi Arabia, for example. I think that the argument that if they don't buy the Phantom from the United States they will buy the Mirage from France isn't very effective because the Mirage doesn't have the range or the capability of the Phantom.

Why then are we even thinking of upsetting the balance that presently exists in the Middle East, particularly at a time when Egypt's President is rattling the sabre, as he is?

SOME SALES HAVE LONG LEADTIME

Mr. TARR. One thing you have to consider, when you talk about F–4 aircraft, you are talking about deliveries at least several years hence. You are not talking about the balance as it is right now. When you talk about Sadat rattling the sabre you are not talking about 5 years from now. You are talking about the present.

Mr. YATES. But you are also talking about the F–4 right now which in turn gives encouragement to Israel's enemies; does it not?

Mr. TARR. But you are not talking about present capability.

Mr. LONG. Wait a minute. Isn't it true that as soon as a sale like this is announced that other countries swing into action? Do you think they are going to wait, Mr. Secretary, do you honestly believe other countries are going to wait until 2 or 3 years from now, until those Phantoms are delivered, before they start to respond by getting weapons of their own, or taking measures of their own to defend themselves?

Mr. TARR. I am not sure what countries.

Mr. LONG. Are you really trying to tell us that?

Mr. TARR. I am not sure what countries the chairman is talking about.

Mr. LONG. We know a great many countries in the Middle East who are hostile to each other. We know the Arab nations are hostile to each other as well as to Israel. We know that Israel is concerned about them. Can you honestly say you know all the ramifications of this?

Mr. TARR. I am still trying to think of what countries you have in mind though.

Mr. LONG. Iam talking about Saudi Arabia, Iraq, Iran, Syria, Jordan, and Egypt.

Mr. YATES. Not really Iran, I think.

Mr. LONG. I beg your pardon?

Mr. YATES. If the chairman will permit me I don't think we are talking about Iran in the context of the confrontation between Israel and the Arab Nations.

Mr. LONG. Probably not. But how do we know for sure?

NATURE OF SALES TO KUWAIT

Mr. YATES. There seems to be some justification for considering the Iraqi threat to the Persian Gulf at this time. I think that much is certain, but again I wonder whether or not it makes sense to use what seems to be the ultimate weapon, in terms of the Middle East, which is the Phantom. I am not talking about nuclear weapons. I am talking about what has come to be considered to be the ultimate weapon in that area and the sign of U.S. support.

Admiral PEET. There seems to be a misunderstanding. We have not offered F–4's to Kuwait.

Mr. YATES. Then the newspaper stories are erroneous.

Mr. TARR. They are a little bit ahead.

Mr. LONG. What are you considering selling to Kuwait?

Mr. TARR. The time that we have had in Kuwait has talked about a half billion dollar package, about half of which——

Mr. LONG. Are we promoting this?

Mr. TARR. About half of which is involved in material.

Mr. LONG. Are we promoting this?

Mr. ROUSH. Let him answer it, Mr. Chairman.

Mr. TARR. This has been at the request of the Government of Kuwait. When I say half of the material, I mean that the other half is primarily involved in their logistics establishment, and three fields which they intend to build.

Now, of the material, the aircraft that they have thought about is the F–8 aircraft.

Mr. LONG. A what?

Mr. TARR. F–8 aircraft.

Mr. LONG. Eight?

Mr. TARR. F–8, which is a naval aircraft with considerably less performance capability than one would expect from an F–4, and not the range. Where we will come out on these negotiations we are not sure. Also involved are some tanks and artillery pieces and miscellaneous end items.

Mr. LONG. Whatever the package is, we are conducting negotiations to greatly increase the military capability of Kuwait, is that not so?

Mr. TARR. Kuwait virtually has no military capability now.

Mr. LONG. So this would be a very great relative increase.

Mr. TARR. If Kuwait buys these items, it will make it possible for Kuwait to bolster its military forces.

Mr. LONG. Now my question. Are we promoting this? Did we get this thing going? Did we initiate this?

Mr. TARR. I think the initiative came from the Government of Kuwait when they were faced with attacks by Iraqi troops on their border. When they became alarmed, they began to look for help.

THREAT TO SAUDI ARABIAN SECURITY

Mr. YATES. May I go back to Saudi Arabia? What is the argument with respect to Saudi Arabia? Presumably there is some justification, according to your testimony, for Kuwait to consider herself to be threatened. Does such a threat exist in the case of Saudi Arabia?

Mr. TARR. I think, to some degree, the Saudi Arabians are concerned about the same general threat that Kuwait is.

Mr. YATES. The same two islands are involved?

Mr. TARR. No; not necessarily the two islands, but the effect of Iraq and Syria arming heavily. In addition, also the Saudi Arabians are concerned about problems in the two Yemens on their southern border.

The Saudi Arabians, I think, feel very strongly that they are sitting on top of approximately half of the world's oil supply, and unfortunately we live in a world where sometimes people separate you from your good fortune, if there is no way in which you can make it painful for them to do so.

Mr. YATES. Who is trying to take Saudi Arabia's fortune away from them?

Mr. TARR. I think that as they look at the whole energy crisis which the world faces, they have concerns in general without allocating the blame to any one specific country.

Mr. YATES. And will the sale of 34 Phantoms, 24 or 34, if my memory of the newspaper report is correct, protect them against the world's predators?

Mr. TARR. I think they feel that if they have some capability of defending themselves, at least they would be able to thwart the kind of attack that some other power or groups of powers might try to launch through countries that would ally themselves with those powers.

Mr. YATES. We have been talking as though this is in isolation, this kind of a problem. Isn't it necessary to consider that question in the context of all the other problems of the Middle East?

Mr. TARR. Exactly.

Mr. YATES. Namely, the potential outbreak of war again with Israel; and is it not possible that the sale of such planes to Saudi Arabia be the spark that sets off the tinderbox?

Mr. TARR. Obviously, we hope that this will not be the case.

Mr. YATES. But it would be less the case if you didn't sell them; wouldn't it?

MAINTAINING U.S. TIES WITH THE MIDDLE EAST

Mr. TARR. I think the thing that you have to balance obviously is not only our concern for Israel and our concern for some kind of military balance in the area, but our concern for continuing ties in this region upon which we are going to be heavily dependent for our energy in years ahead.

Mr. YATES. If that is true, then this sounds a change of policy with Israel, doesn't it?

Mr. TARR. I think not.

Mr. YATES. I don't see how you can avoid it. If you are worried about the question of energy, you are going to move away from Israel toward the nation that possesses the energy resources.

Mr. TARR. The reason I answered as I did is that I think our support of Israel has never been to the complete exclusion of friendships in the Arab world. We have tried from the very outset to maintain our ties with the Arab world.

Mr. YATES. That may be true but you still don't have ambassadorial relations with the countries, do you? You don't with Egypt, for example, do you?

Mr. TARR. We don't have an ambassador.

Mr. YATES. You don't in Iraq. You don't in a number of them.

Mr. TARR. We don't have an ambassador in Libya, although we have relations there. We certainly have ambassadors in Saudi Arabia and Kuwait.

CONTROL OF EQUIPMENT SOLD

Mr. YATES. There is no way of preventing the Phantoms that are sold to Saudi Arabia from being used against Israel, is there?

Mr. TARR. You do have some control over it. If the planes were transferred, and all of this assumes that there will be a sale of planes, which we are not the least bit certain of right now——

Mr. YATES. If you are not certain of it I wish you hadn't made the announcement, because I think the announcement has stirred up the Middle East. If the sale isn't to take place, I would think it would be embarrassing.

Mr. TARR. Well, the French made the announcement.

Mr. YATES. How did the French know about it?

Mr. TARR. Because the Saudi Arabians are talking with the French about aircraft.

Mr. YATES. About the Mirage?

Mr. TARR. Yes.

Mr. YATES. And we are trying to sell them Phantoms in order to forestall the French from selling them Mirages?

Mr. TARR. Obviously we are in competition with the French.

Admiral PEET. This is a later model of the Mirage. There are different models of the Mirage as there are of the F–5.

Mr. YATES. The later model of the Mirage still isn't up to the Phantom, point I.

Admiral PEET. It is close.

Mr. YATES. The Phantom is still the symbol, isn't it, of American prestige and American support?

Admiral PEET. Yes, but less so than it used to be, don't you think?

Mr. YATES. Oh, no, not at all.

Admiral PEET. Very much so, I think.

Mr. YATES. Not at all. You are trying to make a case that I don't think is true. I am sorry I interrupted you, Mr. Tarr, in connection with the question I had asked you, which was there is no way of preventing these planes, if they are sold, from being transferred to Egypt, for the use of Egypt's or Libya's air forces. If there were a war against Israel, they could be used by the Iraqi air force or any of the Arab nations' air forces, isn't that true?

Mr. TARR. If the planes were sold to Saudi Arabia, they would be sold under a contractual arrangement that prohibited their transfer

without our authority to third countries. Obviously they could be flown to a third country, but with sophisticated equipment like this, unless you have the parts that are required—an F–4 is a sophisticated aircraft, Mr. Chairman——

Mr. LONG. It is hard to nail these things down. I am glad we have nailed down that at least one weapons system is sophisticated.

Mr. TARR. Unless you have a continuing supply not only of spare parts but information about changes in servicing, maintenance, and all the rest, you cannot maintain this aircraft in flying status.

Mr. YATES. Isn't this true of the Mirage as well? Isn't that a sophisticated aircraft as well?

Mr. TARR. Yes.

Mr. YATES. And didn't the Libyans transfer their Mirages to the Egyptians 2 or 3 weeks or a month after they had told the French they wouldn't do it? Isn't this true, sir?

Mr. TARR. May I answer off the record?

[Discussion off the record.]

NEED FOR CAUTION IN MIDDLE EAST SALES

Mr. YATES. You say Saudi Arabia sits on half of the world's oil resources. If that is a paramount point in your mind, what happened to our close relationship with Israel? Will not spare parts be sold as well and are we not going to send our technicians and our information to Saudi Arabia. Let me point out to you again, Mr. Tarr, that prior to the 1967 war in Israel, the United States gave tanks to Jordan under the assurance by Jordan that they would not be used against Israel. Israel captured those tanks and when they were captured they weren't in Jordan. The point is don't you think it is somewhat naive to expect that once these planes are in the Middle East, that if a conflagration begins, if hostilities begin that they won't be used where a combination of allies think they should be used, namely against Israel?

Mr. TARR. Obviously this is the reason that we need to keep careful focus on the military balance or the possible combination of forces that might prevail in that area.

Let me ask you another question, however. If Saudi Arabia had very sophisticated French F–5 Mirages in considerable numbers and if the powers that be in the Arab States decided that they were going to launch an attack on Israel, would we be in a stronger position to prevent that attack by their having French aircraft or their having American aircraft?

Mr. YATES. I believe you would be in a stronger position if they had French aircraft and you were supplying American aircraft to Israel.

Mr. TARR. Well, what could you do about it?

Mr. YATES. I don't know what that question means what would you do about it. You mean about supplying Israel with F–4's?

Mr. TARR. Obviously you would importune them not to go to war.

Mr. YATES. Right.

Mr. LONG. At the same time helping them to go to war.

Mr. YATES. Yes. If the French are going to sell Mirages to the Saudi Arabians, from what I understand is happening in the plane versus plane confrontation in the Middle East, the Phantom is still a stronger plane than the Mirage, even the sophisticated Mirage.

Mr. TARR. The sophisticated Mirage hasn't flown yet so we are not sure.

Mr. YATES. The most sophisticated Mirage that is flying. The Phantom is still ahead of them.

Mr. TARR. It is ahead of the one that is flying. We are talking about another model.

PHANTOM IS SYMBOL OF AMERICAN SUPPORT

Mr. YATES. If it were my choice I would rather have America's continued support for Israel. You want to sell Sky Hawks to the Arab countries, all right, sell your Sky Hawks, but I think the Phantom or what is it, your F–5 that you have also been selling around, if you want to do that, fine, but I think the Phantom, the F–4, is peculiarly in the Middle East the symbol of American strength and American support, and that is why I think it is essential that you think of this very, very carefully, extremely carefully before you go through with it. I am sorry the announcement was made before you go through with it.

Mr. CHAPPELL. May I ask one further question?

POSSIBILITY OF COUPS EXISTS

I think we didn't go far enough on the South American situation. I think all of us concur that it is completely possible for the nation or the leadership in the nation to have power and control over the weaponry of that nation, and there would be circumstances where a rebelling group would hope to obtain the power, and therefore acquire that military strength and equipment that went with it, so I think all of us would concur that the very fact we sell this equipment to a country doesn't deter it, doesn't keep it from falling into the hands of insurgents, but the point is haven't we been emphasizing the idea that we sell to our strong and stable friends to try to help them remain strong and stable, and to keep them in a position where they can protect themselves against what could become an insurgency takeover in another country which would become communistic, and therefore be the enemy of that country and ours? Isn't that a fair statement, Admiral?

Mr. LONG. Would you agree with what the gentleman, Mr. Chappell, has just said?

Admiral PEET. I had trouble hearing and following.

Mr. LONG. You will have to speak much more loudly.

Mr. CHAPPELL. Maybe that is too much country boy talk. Forget it, Admiral.

Admiral PEET. I apologize, sir.

Mr. LONG. How about you, Doctor? Were you close enough to hear?

Mr. TARR. I heard you talking.

Mr. YATES. You were thinking of the Middle East.

Mr. TARR. I was thinking of the Middle East.

CONTROLLING SALES OF ARMS TO COUP-PRONE COUNTRIES

Mr. LONG. I heard Mr. Chappell, I thought. He asked shouldn't we give our friends or countries more friendly to us the weapons that they need to defend themselves against Communist neighbors? I don't

know that anybody is going to quarrel with that, but I want to first question whether we are really carrying out this policy. We are furnishing weapons to countries to defend themselves against other countries that are just as free from communism or subversion. We seem to do it indiscriminately. Second, when countries do get taken over by subversion or communism, it is usually done from within, and then what happens? All of the weapons that we have given to that country up to then are in the hands of a Communist-type country that is no longer friendly to us, so we have run counter to our own interests.

Mr. CHAPPELL. Mr. Chairman, that was the next point I was coming to. Are we taking all of the steps necessary in the best selection of those countries with whom we are going to work out our military assistance programs? Are we taking the necessary steps to make certain we are not providing weapons which tomorrow might be used against our friends and ourselves by their falling into the hands of the common enemy, communism? Is that right or wrong?

Admiral PEET. Mr. Chairman, if there is one thing that we go into thoroughly on a country-by-country basis, it is the analysis of forces and their impact on the balance of power in a given area. We certainly take this into consideration throughout all Latin America. Dr. Tarr and I were concerned about the previous questions on the Middle East because we give a lot of thought to the balance of power.

Mr. CHAPPELL. That is the name of the game all over the world, balance of power; isn't it?

Admiral PEET. Absolutely.

DICHOTOMY OF PHILOSOPHIES

Mr. CHAPPELL. What are the two combating forces or philosophy? Aren't we talking about that which we generally regard as our democratic and free enterprise system as opposed to what is generally known as communism? Aren't those the two opposing philosophies generally?

Mr. YATES. I think what the Admiral described as being in opposition to each other the first day as I recall his testimony, Bill, was the countries that are friendly to us and those that are not friendly to us. I don't think he used the term "communism" at that time, did you, Admiral?

Admiral PEET. No; I think all of us try to stay away from talking about "stemming the tide of communism" and that sort of thing. I think that is what is bothering some of us about your statements.

Mr. CHAPPELL. You are worried about whether you call a spade a spade; aren't you?

Admiral PEET. No, I don't think so, but I think it tends to oversimplify the situation. Each one is very complex.

Mr. CHAPPELL. The point is you are still talking about the balance of power.

Admiral PEET. Yes, sir.

Mr. CHAPPELL. That is the name of the game everywhere, and there still is the common enemy which you say is lined up as not being our friend and we all know who we are talking about; don't we? We are talking about a philosophy which is anti-American, and that is communism; isn't it?

Admiral PEET. We are not disagreeing, sir.

RATIONALE FOR FMS TO CHILE AND PERU

Mr. LONG. In line with what the gentleman from Florida has raised, let's look at the foreign military sales credit program for fiscal year 1974—$10 million for Chile and $20 million for Peru. That is $30 million out of $150 million, one-fifth of our entire military sales credit program for fiscal 1974 for all Latin America goes to two countries that I thought were very dubious so far as being countries that we were alined with.

Admiral PEET. We can tell you what we anticipate the sales will be and what they would cover.

Mr. LONG. You have the figures right here. Aren't they your figures?

Admiral PEET. Yes, sir.

Mr. LONG. $10 and $20 million.

Admiral PEET. Those amounts are anticipated sales to those countries, and they do not include F–4's or anything that sort.

Mr. LONG. But why are we selling them anything? Why are we doing any business with them? They are not friendly to us. We are worried about them.

Admiral PEET. We feel that after study and careful consideration by the State Department and others in this country——

Mr. LONG. That is not an answer at all, Admiral.

Admiral PEET. Somebody has to make this type of decision—to decide that it is in the best interests of the United States.

Mr. LONG. You are not answering my question. I asked you why you did it and you say somebody did it in the best interests of the United States. We want to know why it is in the best interests of the United States.

Admiral PEET. There are many reasons why it is in the best interests of the United States.

Mr. LONG. Name one.

Admiral PEET. I will do my best. It is in the interest of having friendly relations with these countries. If they want to buy from the United States, refusing to sell to them is not a very friendly act.

Mr. LONG. Wait a minute, these are sales to them.

Admiral PEET. Yes, sir.

Mr. LONG. Of weapons.

Admiral PEET. Yes, sir.

Mr. LONG. And we are talking now about furnishing weapons to countries in Latin America because we are worried about communism and subversion.

Admiral PEET. I didn't say we were selling weapons to them for that purpose.

Mr. LONG. If we are not talking about subversion, what are we talking about?

Admiral PEET. As Director of the sales program, I believe that if Chile and other countries in Latin America want to buy aircraft because they feel it is in the best interests of their country, it is their decision, not ours. I am not trying to force these aircraft on them.

CHILEAN NATIONALIZATION OF U.S. PROPERTY

Mr. LONG. I thought that Chile was taking away or confiscating our property. I thought we regarded such confiscations as the types of

things that we didn't want to happen in South America, and that is why we are furnishing weapons to Brazil and other countries, because we didn't want those countries to be subverted and overturned. You told me that was our reason. And then here we have a country that has already been taken over by the forces of evil, and lo and behold, you are giving them sustenance, and justifying it as being in the best interests of the United States. How do you justify it, Admiral?

Admiral PEET. Mr. Chairman, I probably would have difficulty justifying it in this forum; but as an American citizen, I feel that these sales to Chile are justified.

Mr. LONG. That is your answer?

Admiral PEET. Yes, sir.

Mr. LONG. As an American citizen?

Admiral PEET. It is, unless you want to go into a debate on economics and all the other factors that go into making such a decision.

Mr. LONG. We are not trying to get into economics at this moment. I have other questions about economics, such as why we have given in a certain number of years over $1 billion worth of weapons. I believe that that roughly matches all economic aid that we have given them. Basically, haven't they spent on weapons an amount equal to what we have given or made available to them for economic aid?

The figures are perhaps out of date by now, but at one time we found that the South American countries as a bloc had spent on weapons, from us and from other countries, the equivalent of all the money we had given them in economic aid, both grant and assistance. Thus, our entire effort to raise their standard of living, their education, and so on had gone into weapons. There I think you are getting into economic questions. What is the aim of our whole economic foreign assistance policy as you see it, or have you thought it through? The State Department is probably better able to answer that. What do you see as the purpose of our whole foreign aid policy, because I don't see that we have a clear purpose. We can't justify it. It is hard enough to justify to our taxpayers, isn't that right, Mr. Roush—even if we think we have a clear aim in view—but to justify it when we don't know what our aim is, is even more difficult.

Mr. ROUSH. I haven't tried to justify it to my constituents.

Mr. LONG. You can't justify it. You just stand there and listen to the storm and hope it dies away.

Mr. TARR. Mr. Chairman, may I come back to the question that you asked about Chile. When we put the $10 million in this program for Chile, we had no idea of a specific program that might be carried out. As you know, these figures are illustrative.

———. It might be reasonable to put a figure in for Chile, not knowing more about the future than simply that.

U.S. RELATIONSHIP WITH PERU

With respect to Peru, we have two outstanding differences. One relates to our problems with the fishing fleet, the other to the seizure of American corporations and the payment of the assets of those corporations. We are trying to work on——

Mr. LONG. We are rewarding them for seizing our corporations.

Mr. TARR. We are trying to work on both of these problems.

Mr. LONG. I am not quite sure what you mean when you say work on them. They have seized our ships; they have seized our corporations. Now, are we rewarding them for doing this?

Mr. TARR. We know that a great deal of discussion between nations is necessary with respect to the law of the sea, and we are preparing for the Law of the Sea Conference. The initial discussions begin some time this summer, and the first of the Conferences will be held next spring.

The cod war in Iceland simply illustrates the problem that many nations have with respect to control over fishing rights adjacent to their shores.

Mr. LONG. I do not see how that answers my question.

Mr. TARR. We hold, as a nation, with what now is the law of the sea, the 3-mile limit, but my guess is that as we move into negotiations in the Law of the Sea Conference, most nations will want some change, particularly as it relates to fishing rights.

———.

Mr. LONG. How does that relate to military sales, to countries that have seized our ships and seized our factories?

SALES PLANS TO PERU ARE ILLUSTRATIVE

Mr. TARR. We have not actually gone ahead with sales to Peru.

Mr. LONG. But you have them here planned and we are being asked to approve this. It is part of your illustrative budget.

Mr. TARR. We have put in as an illustrative figure the possibility of sales to Peru. But this is not intended to declare that we definitely will have sales to Peru.

Mr. LONG. Why do you even propose it?

Mr. TARR. Because we think there is a possibility———

Mr. LONG. Are you trying to buy this friendship, is that it? Are we trying to buy them off, hoping we can appease them in some way? Is that what you are talking about?

Mr. TARR. We feel that if we can solve these two outstanding difficulties there is no reason why we should not go ahead and do business with them.

Mr. LONG. What you have told them is that one good way of getting something out of us is to seize our ships and grab our plants. Is that awfully good psychology for dealing with anybody, either our friends or countries hostile to us?

PERU RELATIONS BASICALLY SOUND

Mr. TARR. We have disagreements, obviously, with respect to fishing rights, but this does not mean that, across-the-board, we disagree with the Peruvians. It does not mean that our relationships on that one point alone are absolutely sour. The American contacts with Peru are considerably more extensive than those that are affected, either by their seizure of our plants or by the seizure of our fishing boats. At a time when Peru was actually seizing some of our corporate assets, there were other American corporations who were investing in Peru.

Recently an American banking group——

Mr. LONG. Are they covered by OPIC, those countries?

Mr. TARR. I do not know.

Mr. LONG. Investing with the idea that we will bail them out through OPIC, Overseas Private Investment Corporation?

Mr. TARR. I cannot answer that.

Mr. LONG. I can see why a company would want to keep on investing in a country if they knew we were going to bail them out if they got into trouble.

Mr. TARR. I know that recently an American banking group loaned the Government of Peru $100 million.

Mr. LONG. This raises very interesting questions about OPIC. I wonder whether we knew about that when the OPIC discussions came up?

This never was brought out at the time we were being asked to talk about the OPIC thing.

Mr. TARR. I cannot testify on OPIC because I do not know.

Mr. LONG. Does the State Department know about this?

Mr. TARR. Well, they do, but I do not know about everything that goes on in the State Department, Mr. Chairman, and I apologize.

Mr. LONG. Well, you are just citing this an an example?

Mr. TARR. I am merely saying there are concerns in Peru that are larger than the two issues that I have described.

Mr. LONG. You really do not think that this is Congress' business. It kind of irritates you when we raise these things; is that right, Mr. Secretary?

Mr. TARR. Mr. Chairman, it does not disturb me in the least that you have valid concerns, and I commend you for them. The thing——

Mr. LONG. Why are you irritated then by my raising this? Do you not think it is our business to know about this? We had a very spirited discussion on OPIC on this whole question of our bailing out companies that invest in Peru, Chile, elsewhere.

This $100 million thing you just talked about was not mentioned. Now you are mentioning it as a plus, whereas I would have thought it was a minus.

Mr. TARR. Mr. Chairman, I have never, once, taken the view that Congress should be kept from any information, that they should be brushed aside on any discussion. I have always listened as well as I could to what Congressmen say.

Mr. YATES. Mr. Chairman, will you yield for a few more questions?

Mr. LONG. Yes.

UNITED STATES-SAUDI, KUWAITI DISCUSSIONS

Mr. YATES. May I return to the Middle East again? How long have the discussions been going on for the sale of planes to both Saudi Arabia and Kuwait?

Admiral PEET. In the case of Kuwait, since late 1971. I think there is a misunderstanding, Curtis, about F–4 sales to Saudi——

Mr. YATES. You mean to Kuwait?

Admiral PEET. Yes, sir, Kuwait. No F–4's have been requested by or for sale to Kuwait.

Mr. YATES. No F–4's to either country?

Admiral PEET. Not for Kuwait. We have not offered F–4's for sale to Kuwait. The question of whether or not we will offer the sale of F–4's to Kuwait has not been decided. Itwould take quite some time

to consummate a sale of F–4's to Kuwait and it also would be some time before that country would be ready or able to accept and operate them.

Mr. YATES. The French have broken the news that you were discussing with them, is what your testimony was.

Mr. TARR. About a week ago?

Mr. YATES. Right.

How long have your discussions been going on? It is now public knowledge is the point I have been making

How long have your discussions been going on?

Mr. TARR. About 2 weeks.

Admiral PEET. Something like that.

Mr. YATES. Just 2 weeks?

You mean the French broke it almost immediately.

Mr. TARR. They did within a day.

Admiral PEET. Yes, are you talking about Kuwait now?

Mr. YATES. Talking about both countries.

Admiral PEET. The deal with Saudi Arabia is a different matter. Sales to Saudi Arabia are not being discussed in detail as are sales to Kuwait. A team is in Kuwait right now talking and negotiating. You read in the papers about a $500 million deal with Kuwait including specific items. We are preparing letters of offer. F–4 sales to Saudi Arabia are an entirely different matter.

Mr. YATES. What you are saying is, both of these should be kept separate, the Saudi deal should be kept separate from the Kuwait deal?

Admiral PEET. Yes, very much so.

Mr. YATES. All right. Take the Saudi deal, how long have the discussions been going on?

Mr. TARR. About 2 weeks.

Admiral PEET. What led to these very recent discussions is the fact that the Saudis have been talking to the French about various aircraft and whether or not the French would sell them high performance aircraft. They then turned to our Government and asked if it would be willing to sell F–4's to them.

Mr. YATES. And what did our Government say?

Admiral PEET. A policy decision reported in the paper recently announced that we would be willing to do so?

Mr. YATES. A policy decision by whom?

Mr. TARR. The President.

Mr. YATES. The President said yes, we would be willing to sell you F–4's?

Admiral PEET. Yes, sir, that is what was announced.

SAUDIS, ARM SALES AND OIL

Mr. YATES. Is there a quid pro quo for that other than the sales price?

Mr. TARR. No.

Admiral PEET. Not to my knowledge.

Mr. YATES. Is there any talk of any oil concessions as a result of this?

Mr. TARR. No.

Mr. YATES. No relationship at all between the oil that Saudi owns and making it available to the United States?

Mr. TARR. No.

Mr. YATES. This is purely an arms deal?

Mr. TARR. Yes.

Admiral PEET. I can assure you that the balance of forces was very carefully considered.

Mr. TARR. But with respect to the Saudis themselves, there is no quid pro quo.

Mr. YATES. Other than the actual money for the planes?

Mr. TARR. Yes.

Mr. YATES. Such as it is.

Mr. TARR. Yes.

Mr. YATES. What are we depending on, their good will, to supply us with oil? You indicated this was one of the considerations earlier in your testimony, I thought.

Mr. TARR. It would be good will in part. It would be the fact that we are a consumer and they are a seller.

You know, in business transactions——

Mr. YATES. Then there is no relation, in other words, if we sell them the F–4's, they might just turn around and not sell us the oil? I mean there is no connection between the two is what you are saying?

Mr. TARR. None that I know of.

Mr. YATES. None that you know of. And oil had nothing whatsoever to do with this.

Mr. TARR. Well, it has not been involved in the discussions about the possibility that we might sell them F–4 aircraft.

Mr. YATES. Have you had other discussions with the Saudis about oil relating to arms at all?

Mr. TARR. No; but our companies have had discussions on the price of oil with all of these countries.

Mr. YATES. On the price of oil. Have the companies interceded for an arms deal?

Mr. TARR. No.

Mr. YATES. Have any of the representatives of the companies interceded for an arms deal. I think of Mr. Connally going to the Middle East recently.

Mr. TARR. No; he has not been involved in this.

Mr. YATES. Not involved in any way?

Mr. TARR. No.

Mr. LONG. Can we get some idea then why you are selling them arms?

Mr. YATES. Yes; what is the reason?

Mr. LONG. Why are we doing it?

Mr. YATES. Why are we doing it? Why the change, why the policy decision? The policy decision by the President represents a new attitude on his part, does it not?

Mr. TARR. Yes; because we have not up to this time said to the Saudis that we will do this.

Mr. LONG. We will recess until the end of the quorum.

[Recess.]

DECISION TO NEGOTIATE F–4 SALES TO SAUDIS

Mr. LONG. The committee reconvenes.

Mr. YATES. Mr. Tarr, you indicate that the decision to enter negotiations with the Saudis was a policy decision that was made by President Nixon. Is my understanding correct?

Mr. TARR. The President made the decision about F–4 aircraft. We have not had a prohibition against sales of military equipment to the Saudis.

Mr. YATES. The President was the one who made the decision to make available F–4 aircraft to the Saudis; do I understand correctly?

Mr. TARR. If they wanted to buy them, yes.

Mr. YATES. If they wanted to buy them.

Do you know—I had asked you the question, do you know whether or not any of the oil companies requested that this be done?

Mr. TARR. I am not aware of any.

Mr. YATES. You are not aware of any.

You would not know why the President had changed—this represents a change of policy on the part of the President; does it not?

Mr. TARR. It does with respect to the F–4.

Mr. YATES. Was any reason advanced by the President as to why he did this?

Mr. TARR. Well, he did it on the recommendation of both the Department of State and the Department of Defense. In other words, when these questions come to the President, they come as a result of departmental recommendations and both Departments recommended that he do it.

Mr. YATES. May we know why, the reasons for the Department of Defense decision and the Department of State decision, or are these confidential?

Mr. TARR. Well, I think I have given you the logic of the Department of State position.

Mr. YATES. OK.

Mr. TARR. I do not think the Department of Defense position was any different.

Admiral PEET. That is correct. We were in agreement. We do not consider the Phantom to be the symbol that you apparently feel it is.

Mr. YATES. I feel it is. I think most of the people in the Middle East think that it is. I happen to think——

Admiral PEET. We probably would have agreed a few years ago, but I do not think that is the case today.

Mr. YATES. You do not know?

Admiral PEET. No, sir.

Mr. YATES. Did you give me an answer to my question as to when the President made his decision? Did I ask you that?

Mr. TARR. Yes; and I think it was about 2 weeks ago yesterday.

Admiral PEET. About that time.

PROCEDURES, RESTRICTIONS OF F–4 SALES

Mr. YATES. What is the procedure now? The President gives you this decision. Does it go back to you? To whom in the Department of State does it go for implementation?

Mr. TARR. Well, it comes to the Secretary. Then we prepared a cable to our Ambassador in Saudi Arabia and asked that he notify the Government.

The next move, if there is one, will be on the part of the Saudi Arabian Government.

Mr. YATES. In other words, they can buy as many Phantoms as they want to buy now?

Mr. TARR. No.

Mr. YATES. What is the President's decision? Is there a limitation on the President's decision?

Mr. TARR. No. The President's decision is that in principle he would agree to the sale of F–4 aircraft to Saudi Arabia. But thus far there has been no discussion of numbers.

CONSIDERATIONS IN CONSUMMATING SALES TO SAUDIS

Mr. YATES. I go back to my question: Can the Saudis buy as many F–4's as they want?

Mr. TARR. They could ask for any number that they want. Before we agreed to a number, we would look very closely to the forces in the area. We would also look to some degree on their ability to utilize the aircraft with respect to the training of pilots and all the rest.

We need also to balance out our other commitments of F–4 aircraft against the capability of the company to produce the aircraft.

We are talking about deliveries here that are considerably removed from the present. The timelag on an F–4 from the time that they let contracts for the components until the aircraft is delivered is about 2 years, is it not?

Admiral PEET. I would say it is at least that——

Mr. VON MARBOD. At least.

Admiral PEET. By the time you get them on the production line, delivered and the purchasing country prepared to operate them.

Mr. TARR. There you are talking about more than 2 years.

Admiral PEET. Well down the pike.

Mr. TARR. But my point is this: You have to look at openings in the line when aircraft might possibly be delivered.

Mr. YATES. Are they still delivering F–4's to the U.S. Air Force?

Mr. TARR. Yes.

F–4 SALES TO OTHER COUNTRIES

Mr. YATES. They are? Are F–4's being sold to other nations than Israel?

Mr. TARR. Yes.

Mr. YATES. To which other nations are F–4's being sold?

Mr. TARR. Turkey, Greece, Germany, Iran, and Japan?

Admiral PEET. No, I do not think so in the case of Japan—at least not whole aircraft. We are selling Japan parts on a government-to-government basis in support of its F–4 coproduction line.

Mr. YATES. Does a newly purchasing country have to get in line behind these countries or can you vary the delivery schedules in accordance with what you decide they should be? This is not a chronological matter, is it, in terms of delivery? You can decide whether planes are diverted to Saudi rather than to Germany, can you not?

Admiral PEET. It is normally on a first come, first served basis.

Mr. TARR. It is not easily done.

Mr. YATES. I realize that.

Mr. TARR. The flexibility in production lines primarily comes from the schedule of deliveries to our own forces.

Mr. YATES. I would think they would be first.

Admiral PEET. There is another factor involved in that each country orders its own aircraft and they are not all configured alike.

For example, some things may be denied to one country but not to another, or one may want something that another does not want. The aircraft ordered carries its own distinctive characteristics when it goes down the production line.

MIDDLE EAST ARMS "RACE" VERSUS "BALANCE"

Mr. YATES. Are you concerned at all that the sale of F–4's to Saudi and possibly Kuwait may spark another arms race in the Middle East?

Mr. TARR. There obviously is a buildup of arms in the Middle East that has been going on for a long time.

The most impressive countries in this buildup have been Israel, Syria, Iraq, and Iran.

Mr. YATES. And Egypt, too. Egypt has received an enormous amount of arms from the Russians, have they not?

Mr. TARR. Exactly. Although these deliveries now have been terminated and have been for some time.

Now we see that these nations and others probably will be continuing to acquire arms.

With respect to Israel, we obviously hope that some form of peace agreement beyond a cease-fire can be worked out in the relatively near future. The situation that Israel faces becomes more difficult the longer we wait for a settlement in the Middle East.

Mr. YATES. What you are saying then is that the answer is yes, that an arms race is on now and will continue; is this correct?

Mr. TARR. An arms buildup; yes, sir.

Mr. YATES. OK. If Saudi Arabia and Kuwait are able to buy F–4's from the United States, Israel will have to meet that challenge, will she not, by buying more F–4's, if they are made available by the United States, or by other arms?

Mr. TARR. It depends on the capabilities of the countries that she sees as possible antagonists. The thing that the Israelis need to look at and we need also to look at is the countries surrounding her. The one thing I think that needs to be added to the point that you made is that if the problems between Israel and the nations surrounding her were settled to the satisfaction of all parties, it might have very little influence on what Saudi Arabia or Kuwait would want to acquire with respect to the kinds of equipment we are talking about.

Mr. YATES. That is a pretty remote contingency, is it not?

Mr. TARR. I hope not?

Mr. YATES. Presently?

Mr. TARR. I hope not too remote.

Mr. LONG. Will the gentleman yield?

Mr. YATES. I join you in that hope, but we are trying to be realistic in addition to our wishing.

I would think that, based upon the present setup, your information is probably better than mine, I only know what I read in the newspapers, but from what I read in the newspapers, the possibility or the probability of settlement is still quite remote at this time.

Mr. LONG. Will the gentleman yield?

Mr. YATES. I will as soon as he answers the question?

That is correct, is it not, Mr. Tarr?.

Mr. TARR. There is no basis right now for immediate settlement.

Mr. YATES. I yield to the chairman.

Mr. LONG. Well, you know, I would hope we had some clear idea what we are trying to achieve.

Are we trying to achieve peace in the Middle East?

Mr. TARR. Yes.

ARMS SALES: PEACE IS MAIN OBJECTIVE

Mr. LONG. Well, that is a very worthy aim.

I have here a statement that says the arms sales can also be viewed within the context of a major effort by the Nixon administration over the past year or so to increase U.S. arms sales abroad to help the balance of payments. Sales are also designed to keep the U.S. defense industry working without paying for that work solely out of the Pentagon's budget.

Now, do you see any conflict between those two aims, trying to keep the peace and at the same time promoting arms sales to improve our balance of payments and to sell goods from the defense industry?

Mr. TARR. Mr. Chairman——

Mr. LONG. You feel those are compatible?

Mr. TARR. The byproduct of arms sales is an improvement in the balance of payments, but that may not necessarily be the aim of the sale, where this says that it is our aim to keep defense industries busy and improve the balance of payments.

Mr. LONG. Peace is the main objective.

Mr. TARR. We would not disagree.

Mr. LONG. You view peace as the main objective and these weapons as merely products, and you would be willing to sacrifice them to preserve the peace.

Mr. TARR. Exactly.

Mr. LONG. Would you agree with that?

Admiral PEET. Yes, and I would like to correct any erroneous impression to the contrary. We don't promote arms sales in the Defense Department.

Mr. YATES. Will the sale of F–4's to Saudi Arabia and Kuwait promote peace in the Middle East? That doesn't make sense, does it?

Admiral PEET. I think it might. I think it might help under certain conditions.

Mr. YATES. Do you want to put that on the record?

Admiral PEET. We are not promoting the sales. We hope they will help to advance the best interests of the United States.

Mr. YATES. How will it help peace in the Middle East, Admiral, if you add more weapons of war to the Middle East? Will that promote the peace?

Mr. TARR. It might deter the aggressive tendencies of both Syria and Iraq.

Mr. YATES. Is it likely to promote peace between Israel and her neighbors?

Mr. TARR. Insofar as you have a counterweight to those two nations it doesn't hurt at all.

Mr. YATES. Will you be training, in the event that you sell the F–4's to Saudi Arabia and Kuwait, will you be training her pilots in the use of planes?

Mr. TARR. Undoubtedly we will be training a lot of their personnel.

Admiral PEET. We keep talking about F–4's for Kuwait and I would sure like to have the record corrected.

Mr. YATES. It is my fault.

Admiral PEET. We haven't discussed F–4 sales to Kuwait at all.

Mr. YATES. I think the newspaper talks about F–4's to Kuwait.

Mr. TARR. They do.

Mr. YATES. You say you are not going to sell F–4's to Kuwait?

Mr. TARR. There is not yet Presidential——

Mr. YATES. Approval?

Mr. TARR. Approval.

Mr. YATES. Kuwait has asked for them?

Mr. TARR. Yes.

STRENGTH OF KUWAITI ARMED FORCES

Mr. LONG. A little while ago, Mr. Secretary, you said Kuwait had practically no armed forces and this would be adding to it, but it didn't have anything now. I have here a statement saying U.S. arms shipments will more than double Kuwait's current armed forces which now consists of an army of about [———] men and about [———] older British and Indian tanks, [———] British built jet fighters. That is quite a substantial addition, isn't it, to Kuwait, assuming that this is correct, or would you dispute the accuracy of that?

Mr. TARR. I think that was exactly my point, Mr. Chairman.

Mr. LONG. I thought you said they had very little now and this is a doubling. In other words, they have a considerable armed force now, but I got the impression from you before that they didn't have any, or very little.

Mr. YATES. ——— isn't very much.

Mr. TARR. ——— is not a considerable force, given what they have to defend.

Mr. LONG. You are probably right.

Mr. TARR. The population of Kuwait is just under 1 million people; isn't it?

Mr. LONG. I know it is very small. I think Mr. Yates' point is the main one. That is the fear engendered in other countries by one country's buying some very sophisticated weapons systems. Another point is mentioned here: "Officials say details on when equipment will be delivered, how much will be paid for in credit or cash will be required are still to be negotiated." Apparently credit is envisioned here, unless these reports are all wrong. This is another newspaper report I am reading.

Mr. TARR. Apparently it is by the writer of the article, Mr. Chairman, but we have not heard about it.

Mr. LONG. Are you prepared to say for sure that there is absolutely no credit involved in this proposed sale to Kuwait?

CREDIT CONSIDERATIONS FOR KUWAIT AND SAUDI ARABIA

Admiral PEET. I am prepared to say that there is no FMS credit involved in the sale to Kuwait.

Mr. YATES. Is that true of Saudi Arabia?

Mr. LONG. It could be some other kind of credit?

Mr. TARR. Bank credit.

Admiral PEET. If they go to private banks, that is possible, isn't it, Ben? I couldn't say they won't be able to do that around the world, but as far as foreign military sales credit is concerned, we can say unequivocally that it is not involved.

Mr. SHRIVER. Kuwait won't need credit, will they? Don't they have enormous reserves?

Admiral PEET. Yes, sir.

Mr. LONG. That was the purpose of my question.

Mr. SHRIVER. That would be true with Saudi Arabia. They won't need credit.

Admiral PEET. Yes, they should not need credit.

THE SAUDI OIL FACTOR

Mr. LONG. That is why I asked because they have so much money. There have been several indignant questions raised. Why on earth do you give credit to a country with as much cash as Kuwait. On this matter of oil—this is my last question—it is said all along we must keep the friendship of Arab countries because they control all this oil, and we need the oil. Isn't it true that they need the money as much as we need the oil?

Admiral PEET. I am sure they would like to have the money. It is a question of their need. I sometimes have the impression they have more money than they know what to do with.

Mr. YATES. They are certainly asking for more and more money in connection with their negotiations with the oil companies.

Mr. LONG. There is no harm in asking.

Mr. YATES. They are getting it.

Mr. LONG. I somehow can't picture these countries sitting on their oil for a very long time, but that is another matter. You say you are not doing this for the oil anyway; is that correct?

Mr. TARR. I think the point is that there are many places where they can sell their oil, and a union of consumers would be a very difficult thing to organize and police.

Mr. LONG. Any union is hard to organize. I have never known a monopoly yet that stood up for very long whether it was a sellers organization or a buyers organization.

OTHER SAUDI ARMS PURCHASES

Mr. YATES. Are the Saudis buying other arms than the F–4's or is that confidential?

Mr. TARR. They might buy some F–5E aircraft.

Mr. VON MARBOD. They are on order now.

Mr. TARR. What else they might have in mind I don't know.

Admiral PEET. They are buying a naval capability.

Mr. YATES. From the United States?

Admiral PEET. Yes, sir, a 19-ship package.

Mr. YATES. What kind of a navy are you selling them?

Admiral PEET. It is more of a coast guard.

Mr. LONG. The finest navy money can buy.

Admiral PEET. I wouldn't agree with that. It is more of Coast Guard—patrol craft and vessels of that sort.

Mr. YATES. Are these destroyers or destroyer escorts?

Admiral PEET. No, sir; they are small craft.

Mr. YATES. Are you selling them any submarines?

Admiral PEET. No, sir.

Mr. LONG. How can the coming arms sales to Saudi Arabia and Kuwait fail to encourage an inter-Arab arms race?

Admiral PEET. Kuwait is a small country with a small defense establishment. It faces a much larger and more powerful neighbor, Iraq, which has only recently forcibly asserted claims to Kuwait territory. If Kuwait proceeds with its plans, its defense will definitely be enhanced but it will pose no offensive threat to Iraq.

Our defense relationship with Saudi Arabia goes back to World War II. It continued during the period of our containment policy, when we were concerned about Soviet expansion, and in the mid-1960's after Saudi cities were subjected to air attack by Egyptian aircraft. At present, Saudi Arabia must concern itself about the threat from a Soviet-armed and trained Iraq and from a hostile South Yemen, also armed and trained by the U.S.S.R.

In providing defensive equipment to Saudi Arabia and Kuwait, we believe we are helping them to meet their legitimate security requirements and to acquire the necessary military capability to help deter aggression, defend themselves if attacked, and carry out their responsibilities for maintaining peace and stability in the gulf, through cooperative efforts with other gulf states and without outside interference by nongulf states.

Mr. LONG. Are you willing to accept responsibility for striking the match to the Middle East powder keg?

Admiral PEET. Mr. Long, I don't really see the situation in that way. As I have said, our arms supply policy toward Persian Gulf states is aimed at assisting certain of the states whom we see as needing help to meet legitimate security requirements and as playing important roles in maintaining peace and stability in the area.

Mr. LONG. Could not F–4 Phantom jets and F–8 Crusader jets to be sold to Saudi Arabia and to Kuwait be used against Israel in any future Arab-Israel war?

Admiral PEET. No F–4's have yet been sold to Saudi Arabia, and no F–8's or other advanced aircraft have been sold to Kuwait. We have offered in principle to sell a limited number of F–4's to Saudi Arabia, but have received no response to our offer. Kuwait is still considering what aircraft to buy and has made no decision on the F–8.

If either sale went through, the recipient would be obligated by the terms of the sales contract not to transfer the aircraft to a third party without first obtaining the written consent of the U.S. Government. No one can absolutely guarantee, of course, that they would not be transferred to a third party or used against Israel. But we have every reason to believe that both countries would live up to their obligation

and honor their commitments. Moreover, it seems to me that they would not wish to risk jeopardizing their own self-interests by such transfers. Our willingness to sell these aircraft is based on a Mig-21 threat to these states from Iraq and, in the case of Saudi Arabia, from South Yemen; it is related to the Persian Gulf, not to the Near East.

Mr. LONG. If these aircraft could be used against Israel, why are we thus threatening our staunchest ally in the Middle East, for small balance-of-payments benefits?

Admiral PEET. We do not believe a decision by Saudi Arabia or Kuwait to buy the F–4 or F–8 will threaten Israel. We very carefully considered the effect, if any, of either sale on the military balance in the Middle East. We concluded that neither sale would change the balance. We would sell only a limited number of the aircraft. The F–4 could not be fully operational in Saudi Arabia before the late 1970's, at the earliest. The Israelis have several hundred modern aircraft, including F–4's, A–4's, Mirages, and Super Mirages (the latter currently being produced in Israel), in their inventory and large numbers of well-trained and experienced pilots and support personnel. While posing no military threat to Israel, the sale of the aircraft to Saudi Arabia and Kuwait would serve important U.S. interests in the Persian Gulf/Arabian Peninsula area.

Mr. LONG. Mr. Coughlin, do you have some questions?

Mr. COUGHLIN. I just wanted to commend both the admiral and Mr. Tarr for their patience. We have been sort of bouncing back and forth between the Middle East and South America, with great alacrity. I guess we still will have an opportunity to go perhaps in a more orderly fashion through the various countries later.

Mr. LONG. That comes later on a line item basis.

Mr. COUGHLIN. I have no further questions at this time.

Mr. LONG. Mr. Shriver?

Mr. SHRIVER. No further questions.

Mr. LONG. Mr. Chappell?

Mr. CHAPPELL. No.

Mr. LONG. Mr. Yates?

AFRICAN CONCERNED OVER MAP TO PORTUGAL

Mr. YATES. Thank you, Mr. Chairman. At the United Nations I was our representative to the committee of 24. The African nations strongly criticized the United States for the furnishing of arms to Portugal, which they claimed were used to crush the African independence movements. Do you still find that to be true?

Mr. TARR. Yes.

Mr. YATES. Do you encounter this in connection with your relations with the African nations?

Mr. TARR. Yes; the program that we have with Portugal is involved in our base agreement in the Azores. We stipulate all that we provide to the Portuguese Government that it will not be used in Africa. The African nations nevertheless treat this as a point of difficulty in our relations.

Mr. YATES. Do we have any proof that the weapons are not being used in Africa?

Admiral PEET. I think the key point is that the equipment and training we provide is all oriented towards Portugal's NATO related mis-

sion in ASW and air defense, we try to monitor use of the equipment provided as closely as we can.

Mr. YATES. Do we know that any of the weapons we furnish to Portugal for NATO are not being used in Africa to quell so-called freedom movements?

Admiral PEET. We do everything we can to control use of the equipment, including having them sign an agreement to the effect that they will not use this equipment for prohibited purposes; but you never have absolute control over something that you sell.

Mr. YATES. Are we selling any weapons to any of the African states?

Admiral PEET. Not weapons, but we do sell some material to Zaire, Tunisia, and Morocco.

Mr. YATES. Do we sell any to South Africa?

Admiral PEET. No, sir.

Mr. YATES. Thank you.

Mr. LONG. If there are no further questions the committee will adjourn until 1 o'clock tomorrow afternoon.

WEDNESDAY, JUNE 6, 1973.

Mr. PASSMAN. The committee will come to order.

We shall continue this afternoon our examination of the budget requests for the military assistance and sales programs.

GENERAL COSTS

I would like to ask some questions about the regional items.

First, maybe, we should ask then about the general cost.

I believe the 1974 estimate is $93,948,000. The 1973 program was $91,090,000. There is an increase in your request of $2,858,000 over the 1973 program. Is that correct?

Mr. VON MARBOD. That is correct, Mr. Chairman.

Mr. PASSMAN. With some reductions in certain areas, why would this general cost category be higher?

Mr. VON MARBOD. Mr. Chairman, we are estimating that during fiscal year 1974 there will be an increase in deliveries of end items—MAP grant aid materiel from the pipeline and excess defense articles—which will require an increase in packing, crating, handling, and transportation funds. This accounts for the increase in supply operations from $61,460,000 to $69,200,000.

Mr. PASSMAN. That answer is adequate and I think reasonable. It is just a question of the commodities costing more, so it takes more money to deliver the same amount of hardware.

Mr. VON MARBOD. And an increased quantity being moved, Mr. Chairman.

PRESENTATION OF SUPPLY OPERATION FIGURES

Mr. PASSMAN. The supply operation item was previously included under each country, is that true?

Mr. VON MARBOD. That is true, Mr. Chairman.

Mr. PASSMAN. Why did you lump it in one item?

Mr. VON MARBOD. We were recently criticized by our own auditors for estimating and managing our supply operation on an individual country basis. The auditors felt we would have better visibility of this account, better management of it if we treated it as a package. We do, however, indicate in each individual country program the amount that we estimate will be required during the fiscal year for the movement of materiel.

Mr. PASSMAN. It follows, nevertheless, though, you have to transfer out of this account right back to the same countries the equivalent of what you had in previous years for these countries?

Mr. VON MARBOD. That is true, and you will note in the presentation document that we have indicated the amount by country and have also dealt with supply operations on a worldwide basis. You can view it both ways.

Mr. PASSMAN. What you are saying is, under the country programs it is still in, but you lift it out to show one grand total. It is still allocated according to need and your prior estimates as to the needs under general costs for these countries.

Mr. VON MARBOD. It is indeed, Mr. Chairman.

Mr. PASSMAN. I don't quarrel with the system. I think it is well to have it where you can look at it and know the total.

MAAG'S

Mr. PASSMAN. Are the Military Assistance Advisory Groups—the people responsible for identifying the military requirements needed by the various countries, covered under military assistance?

Admiral PEET. Yes, Mr. Chairman we think they are. There are some countries which have been phased out of the grant military assistance program and we are considering further MAAG reductions in these countries.

Mr. PASSMAN. Could you, Admiral, briefly state the MAAG operation and explain how the costs are divided between the appropriation bill presently under consideration and the defense appropriations bill?

Admiral PEET. Yes, sir, the MAP appropriation pays about 40 percent of the U.S. cost of MAAG operations while other defense appropriations cover the remaining 60 percent. Military salaries account for more than 50 percent of the costs that are paid from other defense appropriations.

The fiscal year 1974 military assistance program budget request contains funds to cover a portion of the operating of the MAAG's worldwide. Those costs chargeable to the military assistance appropriation are estimated to be $16.5 million and are included as part of the administrative expense category in the general cost section of our congressional presentation document.

In addition to these costs funded by the military assistance appropriation, the military departments provide support to our MAAG's primarily in terms of funding those costs associated with military personnel, such as pay and allowances and permanent change of station costs of personnel moving to MAAG assignments. The total estimated cost of support to be provided by the military departments in fiscal year 1974 is $49.9 million.

Mr. PASSMAN. In some instances, you maintain MAAG's in countries where the United States no longer has a military assistance program, is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Why?

Admiral PEET. Of particular concern are the MAAG's in northern Europe, the so-called mini-MAAG's in countries which no longer receive grant assistance.

I have looked at this situation quite thoroughly since I have been in my present job and I have visited the area. We have talked with officials of the countries involved; we have talked to our Ambassadors; we have talked to the military leaders in Europe and we have consulted with the office of the commander in chief, Europe. It has been the subject of much debate and audit. We have concluded that Uncle Sam gets his money's worth out of these MAAG's.

Mr. PASSMAN. But you no longer have a military program. You have been in those countries for so many years training those people how to operate their own shops. I just wonder what knowledge you can impart to these people you have already trained?

Admiral PEET. It is not just a matter of imparting knowledge to these countries.

Mr. PASSMAN. Then what is it?

Admiral PEET. It is a matter of having advisers available in those countries. They assist in the sales effort and they carry out other responsibilities.

For example, the Congress requires us to keep track of the end items we have delivered in the past to make sure they don't go to third countries——

Mr. PASSMAN. When these items are no longer useful and you have no military assistance program, do you then bring the MAAG people home?

Admiral PEET. Yes; whenever we can, but there are some advantages of their presence in host countries, which I would not want to overlook. For example, we get very valuable information from these people, even in the European countries. They have valuable contacts with manufacturers; we get technical information and other information with regard to sales potential. We learn what our competition is in the country, and we maintain contact with a body of people in those countries, that we could not do if we did not retain that presence.

Mr. PASSMAN. I can accept that. I am thinking about the benefits derived from our dollars. We find no Government ever cuts off an expense that is capable of voting, and the military never drops any personnel.

Admiral PEET. I am sure there are many people who think so, but I hope we are being harder nosed about it than that. In those countries, there is an average of about seven military personnel in these groups.

Mr. PASSMAN. I know that, but you can nickel and dime a millionaire to death. You can take a number of these little programs, and they will add up to a lot of money.

MAP-FUNDED PERSONNEL

Are the administrative expenses for the military sales program and the excess defense articles program funded from the "MAP administrative expense" item, Admiral?

Admiral PEET. Yes, sir, they are.

Mr. PASSMAN. How many people are engaged in the various military assistance programs?

Admiral PEET. Our 1973 authorization figure for the MAAG's, Missions, and MIL groups is 2,280 military personnel. This figure does not include attachés.

Mr. PASSMAN. Could you give us the total number of personnel presently used in countries where we no longer have a military assistance program?

Admiral PEET. Yes, sir.

[The information follows:]

The total number of U.S. military security assistance personnel authorized in fiscal year 1973 in MAAG's/Missions/Milgps, or as augmentees to Defense Attaché Offices in countries where there is no military assistance program proposed for fiscal year 1974, is 333. However, 246 of these personnel are authorized in countries which still have MAP undelivered balances which must be managed until delivery. Therefore, the balance, or 87 personnel, is the actual number of military personnel not engaged in still active military assistance programs. These personnel, however, have a continuing responsibility for end-item supervision of MAP materiel provided in prior years.

EFFECT OF MAAG PERSONNEL REDUCTION

Mr. PASSMAN. I believe you have put into effect a 15-percent reduction in personnel assigned to the MAAG's.

Admiral PEET. Yes, sir; in accordance with section 512 of Public Law 82–226.

Mr. PASSMAN. What effect has that had on your operation, either good or bad?

Admiral PEET. We are not doing a number of the things we were able to do before. We have made a thorough review of it. We are not able to keep track of the end items as required by law, in the same detail that we were able to. You have to give up something when you reduce the number of personnel.

Mr. PASSMAN. I know we all want to be completely honest about this. Do you think the money saved by reducing the personnel is more than offset in possible other losses by not having control and not being able to keep up with the end items?

Admiral PEET. I personally don't think so.

Mr. PASSMAN. Then have you had a loss or a profit, if we must think in terms of dollars and cents by the reduction?

Admiral PEET. In terms of dollars, it has to be a savings to the United States.

Mr. PASSMAN. If it is offset by maybe not keeping account of expensive end items——

Admiral PEET. We have attempted to get rough dollar figures per man, and it appears that each man we have in these countries is roughly responsible for monitoring $800,000 in equipment sales.

Mr. PASSMAN. For each man?

Admiral PEET. Yes, and if you have more men, it means less dollar value per man and better supervision.

Mr. PASSMAN. You either have been overstaffed or you haven't been overstaffed. You may save a dollar in personnel costs, but you may lose $4 in losing track of valuable equipment. What we are trying to do is find out whether or not you have a profit dollarwise or a loss dollarwise.

Admiral PEET. I think there is a loss dollarwise, but I can't quantify it very well.

Mr. PASSMAN. You say for each person that you have in the MAAG groups, there is $800,000 worth of equipment under his supervision.

Admiral PEET. We have averaged this out to include all equipment of U.S. origin, and we believe each man supervises equipment amounting to that much in value.

Mr. PASSMAN. And the fewer the men, the less supervision?

Admiral PEET. Yes, sir.

Mr. PASSMAN. On page 11, you indicate security assistance personnel are located at Commander-in-Chief Pacific, Commander-in-Chief Europe, and Commander-in-Chief South. Could you tell us where these headquarters are located?

Admiral PEET. Commander-in-Chief Pacific is in Honolulu; Commander-in-Chief South is in Panama; Commander-in-Chief Europe is in Stuttgart, Germany.

EAST ASIA AND PACIFIC REGION

Mr. PASSMAN. Admiral, as we break down the military assistance program by regions, I notice in the East Asia and Pacific region, your 1974 estimate is $530,140,000, which is an increase of $165,168,000 over your 1973 program. Is that true?

Admiral PEET. Yes, sir. Primarily for Korea and Cambodia.

Mr. PASSMAN. What percentage would come from prior unobligated funds and what would be out of the new appropriation funds, say for fiscal 1973?

Mr. VON MARBOD. In fiscal year 1973, Mr. Chairman, we are estimating $2.3 million from reappropriations of prior year funds and $27.9 million of recoupments from the pipeline, or the prior year approved and funded programs.

Mr. PASSMAN. Recoupment means deobligated from accounts where you have no need and you either reobligated or lost it; is that correct?

Admiral PEET. That is correct, Mr. Chairman.

In addition to that, we have $5.5 million of reimbursements in fiscal year 1973.

Mr. YATES. How does he allocate these between countries?

Mr. PASSMAN. The military assistance program is submitted on an illustrative basis. They furnish an estimate. Then subsequently, if you have to reprogram, you do so. Is that correct?

Admiral PEET. That is correct, Mr. Chairman, but we also include an estimate of these recoupments and reimbursements in our total program.

Mr. YATES. Does this mean then that the figures we are looking at in the unclassified chart for East Asia and Pacific security assistance program actually really mean nothing, that they can move these around as they want to move them around?

Mr. PASSMAN. I don't think that you could handle this on any basis other than illustrative. I think the shifts have been less than 5 percent over a period of years. We used to ride herd on you people for making too large transfers. I think it has been under 5 percent.

Admiral PEET. We have a maximum limitation of 10 percent.

Mr. PASSMAN. We have worked on this for many years to get control of it.

Mr. LONG. These transfers have been rather small. I am not quite sure why you say they can't be handled in any other way. It looks to me like it is a stable thing that could be handled on a line item basis. We have military construction handled on a line item basis. I don't see why it couldn't be done here.

Mr. PASSMAN. Let me go off the record.

[Discussion off the rceord.]

Mr. LONG. Do you get permission from the committee on this?

Mr. VON MARBOD. On page 82 of our Congressional Presentation Document, we show, by country, the fiscal year 1973 program as presented to the Congress in March 1972. We also show the fiscal year 1973 program as of January 1973, and the net change between the two.

You will see that in each case the later figure is well within the dollar amount presented to the Congress.

Mr. LONG. That is very reassuring.

Mr. VON MARBOD. After the authorization and appropriation, or the approval of a final continuing resolution authority for the fiscal year if there is no permanent appropriation, we do give the Congress advice as to the distribution of the program, country by country.

Mr. PASSMAN. Thank you very much.

Mr. LONG. I am still not sure I understand it, Mr. Chairman. I know the explanation is here, but the transfer has been made and now you are explaining it and I am glad you are explaining it, but do you, Admiral, call up Mr. Passman and inform the committee that you are planning to make a change of 5 or 10 percent in this particular program before you do it, or do you just feel you have that freedom to move in with the 5 or 10 percent?

Mr. PASSMAN. It is in the basic law. The law says they have flexibility up to 10 percent.

Admiral PEET. If a change is greater than 10 percent, we are required to notify the Congress. There is a reason for this, as the chairman has pointed out. The numbers are not that precise.

Mr. LONG. I think 10 percent is a reasonable sum.

Mr. PASSMAN. Let me say this. I have chaired the committee for 19 years and I knew from the first year I handled the bill that all of this was given on a——

Mr. LONG. That I have known.

Mr. PASSMAN. "Illustrative" basis. You say you believe you need the money here, but having it on an illustrative basis you can transfer

to other areas, but you are limited to a 10 percent transfer and you have kept it at an average of about 5 percent and it would appear to me that is an excellent record.

Mr. LONG. All I want to say is this, that this is the first time I have known about this 5 or 10 percent business, that you did keep within this amount. For many years I have been uneasy about this illustrative business and felt it should be line items and after this statement here I am greatly reassured. I just can't understand why this didn't come out.

LINE ITEM ADJUSTMENTS

Mr. YATES. Mr. Chairman, I am not reassured if I understand what the admiral said. The law is that you may transfer any amount up to the full amount, but you must give notice to the committee that you have transferred, is that correct?

Mr. FORMAN. There may be a little confusion as to what step of the process we are talking about. There are two stages involved here. One is the period dating from the time we come up here with our congressional presentation books and give our testimony until the time an appropriation act is passed. We are presenting an illustrative program and there may necessarily be changes between the time the books are put together—based on budget estimates and recommendations from the field which antedate it by quite a long period—and time of enactment; also, the Congress, in its wisdom, may have reduced the actual appropriation, thus requiring changes in the program.

Now, to reflect the congressional action of reductions in appropriations plus changes in the international situation, adjustments are made in the program and these show up beginning at page 82.

Now, these adjustments are not transfers in the sense that you are familiar with it in the context of a transfer between appropriation accounts for line items but are merely adjustments in a single line item.

Mr. PASSMAN. That is a good explanation. Elaborate for the record because we have 4,000 or 5,000 questions to ask.

Mr. LONG. I think this is very important and I hope we can——

CLARIFYING 10-PERCENT LIMITATION ON TRANSFERS

Mr. PASSMAN. At one time you got all your money on an illustrative basis, both economic aid and military assistance. You could give it all to one country and you would not be in violation of the law. So, subsequently, the Congress enacted a law that gave you a variation of 10 percent. You have 10 percent flexibility which to my way of thinking is extremely reasonable. Because you can't predict right down to the very last bolt and nut as to where you need this, but the very fact that over a period of years you have kept the transfers within 5 percent would indicate to me that that is a good record.

In the past the people who justify the funds could come in and justify a hospital in Guatemala and build a summer resort in Morocco and would be within the law. We have tried to get on top of this. Now there is a limitation as to what you can transfer and we have what I consider good control.

If you exceed 10 percent then, of course, you do come to the committees and get their advice before you proceed to obligate. Is that stated correctly?

Mr. FORMAN. This is the point I was just leading up to. After the appropriation act——

Mr. YATES. I haven't been on the committee, Mr. Chairman——

Mr. FORMAN. If I may continue for just a minute, sir.

Section 653 of the Foreign Assistance Act requires us to present to the Congress within 30 days after the appropriation our distribution of the program within the amounts appropriated by the Congress. Thereafter the President is authorized to change that notification to the Congress only by 10 percent unless he makes certain findings and if he makes those findings then he has to give the Congress 10 days prior notice.

Mr. LONG. Will the gentleman yield?

Mr. PASSMAN. Yes, for a question.

Mr. LONG. Let me get this in my mind now firmly.

Now, we have a $1.9 billion assistance program for fiscal year 1974.

Mr. PASSMAN. This is very clear. This is the law. If you will read it, that is the law.

Mr. LONG. I am trying to understand it now. This is a $1.9 billion assistance program, is that right?

Admiral PEET. Counting military assistance, credit——

Mr. LONG. Five percent of that would be $100 million, is that right?

Admiral PEET. No, we are not talking about 5 percent of $1.9 billion.

Mr. LONG. That is what I want to know.

Admiral PEET. We are discussing the military assistance portion of it.

Mr. FORMAN. The 10 percent pertains to the amount allocated to the country for military assistance and security supporting assistance.

Mr. LONG. This is the 10 percent of that country's share and not of the total amount?

Mr. FORMAN. That is correct.

Mr. LONG. Which is a much tighter discipline?

Mr. PASSMAN. The law is very specific.

Mr. LONG. Otto, you know a great deal more about this than anybody else.

Mr. PASSMAN. Let me say this, gentlemen. We are asking our questions. Please make notes of the questions you want to ask and I will get through with my questions as quickly as possible and you can take all the time you need.

COMMITTEE CONTROL ON FUND TRANSFERS

Mr. YATES. Mr. Chairman, may I point out that one of the critical items of dispute in the last supplemental bill was the question of the transfer of military funds. I think it is very important. I think it is essential that the appropriations—it is the means by which the Appropriations Committee keeps control.

What the basic law does is——

Mr. PASSMAN. You are talking about the Department of Defense.

Mr. YATES. Yes.

Mr. PASSMAN. That is Department of Defense, not this committee. This committee has good control.

Mr. YATES. I wonder why you have a different situation insofar as control over the budget is concerned?

Mr. PASSMAN. The legislation has been enacted into law by the Congress following the recommendations of the Foreign Affairs Committee and the Foreign Relations Committee, so they give us these guidelines and what we have done, Mr. Yates, over a period of years, is to be sure they live with these guidelines. Previously you had no limitation and you could program the funds all in one country if you desired. Personally, I am very well satisfied with the control, but I still don't know why this should continue to be on an illustrative basis.

Mr. YATES. Mr. Chairman, if you have control, how can you say it is illustrative then?

Mr. PASSMAN. It is illustrative.

Mr. YATES. Then you don't have control.

Mr. PASSMAN. We control it because they wouldn't get the money the following year. The committee has the right to say, "You don't get the money; you violated your commitment to us and for that reason we cut your funds off." You have to trust somebody. When they come up with a serious violation we will jump down their throats.

Mr. YATES. Mr. Chairman, if it is illustrative, you have no control——

Mr. PASSMAN. We have control on the amount of money that we give them to operate on.

Mr. YATES. Do you mean total?

Mr. PASSMAN. Beyond that point they are controlled by the basic law passed by the Congress, which was just mentioned. If they violate that, then they are responsible not only to this committee; they are responsible to the authorizing committees and Congress.

We have control only on the total amount.

Mr. LONG. This is not then an illustrative thing. It seems to me illustrative is a misleading term here.

Mr. PASSMAN. To the extent that previously you had no limitation. The limitation is a recent thing and it is still illustrative to the extent that you may cancel out a complete program. Is that not right? Just erase it altogether?

You throw that into a recoup category. We have but one control. That is the amount of money we give you. Beyond that you have to operate according to the authorization bill. They are the ones who fix the guidelines within which you must operate. Is that correct?

RECOUPING DEOBLIGATED FUNDS

Mr. LONG. The chairman just said that they can cut out an item completely.

Mr. PASSMAN. Right.

Mr. LONG. Then you say this goes into some sort of a kitty?

Mr. PASSMAN. No, not a kitty. You have unused funds.

Mr. LONG. Then what happens to that money?

Mr. PASSMAN. Let me explain it. You justify funds for a project. Subsequently you find that you are not going to allocate these funds to that project. So this money then becomes unobligated. Then what you do instead of saying, "This has been deobligated and we wish to reobligate," you apply the terminology "recoup," but what it means is funds were previously obligated, then deobligated, and you are desirous then of having it reappropriated for future obligation, is that right?

Mr. VON MARBOD. We must rejustify to the Congress.

Mr. YATES. What happens to funds that are deobligated? Do we recapture them?

Mr. PASSMAN. We have a habit of reappropriating and unless we do reappropriate you can't use the funds.

Mr. LONG. Within that year or the next fiscal year?

Admiral PEET. Recoupments and reappropriations are a part of our total program. We estimate what they are going to amount to in a given year and that amount is included in the total obligational authority on which the country figures are based.

Mr. LONG. The chairman says the money is put in some sort of a box. Then you reappropriate it. Is that for this or next fiscal year?

Mr. PASSMAN. It would apply to the next fiscal year.

You come up with a billion dollar program. They say, "We have a hundred million dollars unobligated. We are going to be able to recoup from prior obligations $50 million. We need new funds of $850 million to wind up the program."

Is that said correctly?

Mr. FORMAN. That is correct.

Mr. PASSMAN. If we refuse to give you the right to use these recouped funds, it simply means if your programs are sound you would have to increase your request for new appropriations, would you not?

Mr. VON MARBOD. Exactly, Mr. Chairman.

Mr. PASSMAN. That is in the record from cover to cover.

Now, if I may get back on the record, what percentage of total funds requested for MAP in fiscal 1974 will be allocated to the East Asia and Pacific Region?

You may place that in the record.

[The information follows:]

Of the total program requested for fiscal year 1974 ($771.5 million) the percentage proposed for the East Asia and Pacific Region is 69 percent ($530.1 million).

Mr. PASSMAN. Please furnish for the record a table showing the percentage and amount by country which is planned to be allocated in 1974 for operation and investment. You can put that in the record.

[The information follows:]

	Total program		Operating [1]		Investment [2]	
	Thousands	Percent	Thousands	Percent	Thousands	Percent
East Asia and Pacific:						
Cambodia	$167,194	100	$131,845	79	$35,349	21
Indonesia	20,826	100	8,427	40	12,399	60
Korea	238,789	100	47,563	20	191,226	80
Philippines	19,269	100	4,361	23	14,908	77
Thailand	55,762	100	27,288	49	28,474	51
Regional costs	28,300	100			28,300	100
Regional total	530,140	100	219,484	41	310,656	59
Near East and South Asia:						
Jordan	35,632	100	2,100	6	33,532	94
Turkey	85,501	100	18,364	21	67,137	79
Regional total	121,133	100	20,464	17	100,669	83
Europe:						
Portugal	323	100	262	81	61	19
Spain	3,026	100			3,026	100
Regional total	3,349	100	262	8	3,087	92
Africa:						
Ethiopia	10,454	100	4,655	45	5,799	55
Tunisia	2,476	100	488	20	1,988	80
Regional total	12,930	100	5,143	40	7,787	60
Latin America:						
Bolivia	3,996	100	1,033	26	2,963	74
Dominican Republic	796	100	279	35	517	65
El Salvador	400	100	50	12	350	88
Guatemala	1,080	100	9	1	1,071	99
Honduras	400	100	60	15	340	85
Nicaragua	1,023	100	194	19	829	81
Panama	230	100	137	60	93	40
Paraguay	550	100	167	30	383	70
Uruguay	1,000	100	763	76	237	24
Regional program	525	100	525	100		
Regional total	10,000	100	3,217	32	6,783	68
General costs	93,948	100	34,493	37	59,455	63
Worldwide total (TOA)	771,500	100	283,063	37	488,437	63

[1] Operating costs represent the value of equipment, supplies, and services required to operate and maintain the capability of country assets, low unit value secondary items and all expendables—except war reserve ammunition, initial stockage level of spare parts and secondary items programed as a part of a major item or system investment. Also included in operating costs are the charges for supply operations (shown as general costs, not distributed by country) which represent the costs of packing, crating, handling and transportation incurred in the issue and transfer of materiel in the operating and maintenance category as well as logistics management expenses.

[2] Investment costs represent the value of equipment, supplies, and services which increase the force capability including initial equipment, war reserves, replacement of equipment by improved types, the initial stockage of spare parts programed concurrent with related major items, all construction and the cost of supply operations (shown as general costs, not distributed by country) required for investment materiel and services.

Mr. PASSMAN. Please also indicate which countries in the East Asia and Pacific Region, no matter if they receive U.S. assistance or not, presently have U.S. troops stationed within their borders. Place this in the record.

[The information follows:]

U.S. TROOPS IN EAST ASIA AND PACIFIC REGION

U.S. troops are presently located in significant numbers in the following East Asia and Pacific Region countries: Thailand, Japan, Philippines, South Korea and the Republic of China.

Mr. PASSMAN. What U.S. troop withdrawals have been made from the countries located in this region during the past year, Admiral?

You may put that in the record.

[The information was provided for the committee.]

U.S. FORCES AND INVESTMENT IN KOREA

Mr. PASSMAN. We want the record to show the facts.

It is my understanding that from the end of the Korean war up until 4 years ago we had maintained a troop level in Korea in the neighborhood of 60,000 troops. Under the present administration's doctrine it called for bringing the troops home with what I have always thought was an understanding that we will modernize your military forces so in effect you would have the same protection and one would offset the other. It would permit the release of our troops and, as it applies to Korea, it seems that we brought 20,000 troops home at a savings of $1.1 billion over a 5-year period and that we conditionally committed ourselves to military assistance of $1.5 billion during that same period which actually means that the net cost of the military assistance program is actually $400 million and not $1.5 billion, if you apply the savings.

Admiral PEET. Yes, sir.

Mr. PASSMAN. I want to repeat now that we maintained that troop level in Korea for some 20 years until 4 years ago when we came up with this new system of modernizing and letting them furnish their own men so ours could be brought home. Have I stated it correctly for the record?

Admiral PEET. I believe that is correct, sir.

Mr. PASSMAN. Thank you very much, sir.

I think the cost of the Korean conflict was $35 billion and the total deceased was 33,629, and the wounded in action was 105,785.

That is the investment we have in Korea. Now, it is a question of whether we want to spend sufficient money to protect that investment for a few more years or whether we are willing to say that all of our past five Presidents and all of the great leaders during that period were wrong. So that must be a decision made by the Congress. As far as I am concerned, I am going to vote to protect that investment.

KOREA 5-YEAR PLAN ESSENTIAL

In your candid opinion, Admiral, without our military assistance for Korea, do you believe Korea could survive and defend itself against an attack if it should come?

Admiral PEET. Certainly not today. The modernization program is important to Korea's self-defense capability.

Mr. PASSMAN. Doesn't North Korea have about five airplanes to South Korea's one—is that a true statement?

Admiral PEET. I have heard that the ratio of modern fighter aircraft is about ———.

Mr. PASSMAN. Let's read it into the record. Your case will either stand or fall on facts.

Admiral PEET. North Korea has an estimated 500 fighters and ——— bombers.

Mr. PASSMAN. Now, you will compare that with Korea's equipment.

Admiral PEET. I have one table in terms of squadrons and the other table in terms of planes, I will provide the comparable data for the record.

[The information was provided to the committee.]

Mr. PASSMAN. Off the record.

[Discussion off the record.]

Mr. PASSMAN. Our record shows in North Korea they have an Air Force with a strength three times that of South Korea.

If that doesn't justify military assistance for Korea, then all these five Presidents, all the great admirals, generals, and Secretaries of State have been wrong for 20 years.

Mr. LONG. Is that a qualitative superiority as well as quantiative, in that ratio?

Admiral PEET. It is difficult to give a ratio on quality.

Mr. LONG. 300 very modern planes are worth 3,000 old ones. Is this superiority qualitative?

Admiral PEET. Yes; both qualitative and quantitative.

Mr. PASSMAN. Off the record.

[Discussion off the record.]

CAMBODIA

Mr. PASSMAN. At page 13 you indicate that the military assistance provided to most of the countries in this region was needed to insure that the United States may preserve or expand existing base rights and overflight rights in the various countries. Are these the primary reasons or one of the primary reasons for the military assistance program?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Now, if we may look at Cambodia. Your estimate for fiscal year 1974 is $167,194,000, an increase of $33,919,000; is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. I shall not go into the pros and cons. I will just ask the questions and let each member make up his own mind as to whether he likes or dislikes the program.

Over the past year there has been a great deal of criticism concerning Cambodia. The United States supplies a large amount of aid to Cambodia. It has been said the amounts requested are required to protect our interests. Is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. I must ask some questions which deal with sensitive areas.

How many and what type of personnel are presently located in Cambodia?

Admiral PEET. We have those numbers. As you know, we are restricted by law to a total of 200 Americans in Cambodia.

Mr. PASSMAN. That is military?

Admiral PEET. No, sir, not all military.

Mr. PASSMAN. How about civilians?

Mr. TARR. The total is 194 civilians and military.

Admiral PEET. I have a readout on this.

The legislative ceilings are 200 U.S. personnel and 85 third-country nationals paid by the U.S. Government.

The number of U.S. Government, civilian and military personnel, and contract personnel paid with U.S. funds now in Cambodia: U.S. military and civilian personnel, 194, including 9 U.S. citizen contract personnel

Mr. PASSMAN. That is a good enough answer.

How about the other countries?

Mr. YATES. Is that Cambodia alone?

Admiral PEET. That is Cambodia alone. We are well within the limit.

Mr. PASSMAN. Do other nations have personnel in Cambodia?

Admiral PEET. They do and I will have to provide that for the record.

Mr. PASSMAN. Can you tell me at this point whether other countries do have personnel there?

Admiral PEET. Military personnel?

Mr. PASSMAN. Both military and civilian.

Admiral PEET. I believe Taiwan does.

AID, EMBASSY PERSONNEL IN CAMBODIA

Mr. TARR. Our Embassy people are in the 194.

Mr. PASSMAN. What percentage would you require for the Embassy if we were not pulling out of this involvement?

Mr. TARR. I think that Embassy and AID are about one-half and I think we have about 100 military.

Mr. PASSMAN. OK now, let's back up. How many do we have assigned to the Embassy that you would have there regardless of the circumstances? How many for AID, and how many would be in the military category? Then you are down to actually how many people that would be there on account of the dwindling involvement.

Admiral PEET. I will provide the information for the record.

[The information follows:]

About 50 percent of the 194 U.S. personnel in Cambodia are military personnel; that is, about 100 of 194. If there were no military assistance program, of course, there would be no mission for the 74 personnel now working there as the military equipment delivery team (MEDT). If there were a cease-fire, the size of the Office of the Defense Attache could probably be reduced from its present size to as few as 10. Under any circumstances we would expect to have military attachés in Cambodia so long as there is an embassy there. So, in summary I would estimate that the minimum military presence in Cambodia under a situation of no military assistance program would be about 10 military attaches. If there were a diminished MAP, there would be a requirement to assign some additional military personnel to take care of MAP matters, the exact number depending on the amount of work.

Mr. PASSMAN. It would appear there would be only about 35. You said two-thirds, did you not?

Mr. TARR. That is my recollection.

THIRD COUNTRY PERSONNEL IN CAMBODIA

Mr. PASSMAN. It makes a different story, doesn't it, when you break it out like that. Does Taiwan have military personnel, advisers, or what?

Admiral PEET. I believe they have some advisory personnel there, Mr. Chairman.

Mr. YATES. Mr. Chairman, who pays for their services?

Mr. PASSMAN. I would assume Taiwan pays for it. They started an aid program of their own.

Admiral PEET. That is correct.

Mr. PASSMAN. That is another nation that is cooperating. We went out and borrowed $20 million from them, I believe.

Mr. YATES. We borrowed from them?

Mr. PASSMAN. We borrowed $100 million from Thailand. We are paying them 6 percent interest and it is due July 3.

Admiral PEET. In 1967.

[Discussion off the record.]

IMPROPER USE OF U.S. SUPPLIES

Mr. PASSMAN. Last year it was stated that some Cambodian officials were selling supplies to the Communist forces. Has this in fact happened, and could some of the supplies which were sold have been provided by the United States? What answer do you have to that?

Admiral PEET. Mr. Chairman, I am not aware of the report that Cambodian officials have been selling supplies to the Communist forces; however, I am aware that it has been reported that some U.S. supplies were sold by the Vietnamese in an improper way.

Mr. PASSMAN. Would you say a large quantity?

Admiral PEET. No, sir.

Mr. PASSMAN. A small quantity?

Admiral PEET. I would not say a large quantity. The matter has been investigated and I would be glad to provide the details for the record.

Mr. PASSMAN. Has it reached frightening proportions?

Admiral PEET. No, sir.

Mr. PASSMAN. Would you place something in the record on that.

[The information follows:]

During January through March 1972, the DOD Directorate for Military Assistance and Overseas Audits examined into reported improper sales of U.S. military equipment in South Vietnam and Cambodia. This report documents the only instances of improper sales of U.S. military materiel involving Cambodian officials known to have occurred. It involves, not sales to Communists but purchases of materiel by Cambodian officials from South Vietnamese forces.

BACKGROUND

The original finding made by OSD auditors in early 1972 was based primarily on information voluntarily furnished by Cambodian Army (FANK) brigade commanders. The Khmer Armed Forces had been engaged in a rapid build-up of forces. There were shortages in weapons and materiel available to equip and arm the newly formed units and new recruits. A desperate need existed to strengthen the armed forces immediately in order to avoid a military defeat. Direct contact between Vietnamese Army (ARVN) units and FANK units was then necessary and prevalent U.S. advisers were not with either force in Cambodia, property accountability was difficult at best, and both ARVN and FANK personnel took advantage of the situation—ARVN by selling and FANK by buying U.S. military materiel. The materiel known to exceed $450,000 in value at MAP prices included .38-caliber revolvers, M–16 rifles, M–60 machineguns, PRC–25 radio sets, jeeps, 5-ton trucks, and bulldozers. When the sales were discovered, the Chief, U.S. Military Equipment Delivery Team–Cambodia (CHMEDTC) discussed the problem with FANK authorities and received assurance that appropriate action would be taken.

CURRENT STATUS

Corrective action was taken by FANK in March 1962. Evidence presently available to CHMEDTC indicates that the practice was discontinued and has not recurred. Additionally, the current ground combat situation in which border contact is no longer possible has placed a real physical obstacle in the path of such activity. Certain management practices introduced by CHMEDTC including an end item utilization inspection procedure conducted jointly by FANK general staff and MEDTC personnel physically reconcile records with weapons on hand. The results of these inspections do not suggest the continued existence of arms trafficking.

SUMMARY

Reports of improper sales of military equipment are based on 1972 OSD auditor findings. Available evidence indicates the practice has been discontinued and that equipment acquired has been picked up on FANK records. CHMEDTC remains alert to the situation and will continue to monitor the use and disposition of U.S. military property in Cambodia.

Mr. PASSMAN. On page 16 you indicate the trained forces of Cambodia used to be 35,000 troops, but now it is 220,000 who are partially trained and partially equipped. Are these partially trained and partially equipped troops able to sustain the independence of Cambodia?

Admiral PEET. We hope so, sir.

Mr. PASSMAN. What other countries are providing aid to Cambodia, and in what amounts? If you don't have it you can put it in the record.

Admiral PEET. May I provide that for the record?

[The information was provided to the committee.]

OTHER THIRD COUNTRY INVOLVEMENT IN CAMBODIA

Mr. PASSMAN. Are the Japanese helping any?

Mr. TARR. They are in economic aid, Mr. Chairman.

Mr. PASSMAN. How much and on what basis?

Mr. TARR. I think the figure is $7 million.

Mr. PASSMAN. How much?

Mr. TARR. $7 million.

Mr. PASSMAN. You could put up that much. On what terms?

Mr. TARR. This is a grant.

Mr. PASSMAN. A grant?

Mr. TARR. Yes.

Mr. PASSMAN. How about in the credit sales?

Mr. TARR. No, this is for the stabilization of their currency.

Mr. PASSMAN. When was that made, Mr. Secretary?

Mr. TARR. It has been going for the 2 years that I know of, but I don't know when it started.

Admiral PEET. On the security assistance side there is nothing from Japan.

Mr. PASSMAN. What?

Admiral PEET. On the security assistance side, it is zero.

Mr. PASSMAN. You indicate that most of the training for Cambodia has been conducted in other Asian countries. Would you tell the committee what other Asian countries these Cambodian forces were trained in?

Admiral PEET. The majority of the training was provided in Thailand, sir.

Mr. PASSMAN. Is this paid for out of Cambodian resources or out of ours?

Admiral PEET. Out of the total military assistance we have allocated to Cambodia.

DEFINING "DISPOSABLE" EXCESS EQUIPMENT

Mr. PASSMAN. On page 16 you indicate under fiscal 1974 authorities requested item excess equipment is listed with the word "disposable" out to the side.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Would you, Admiral; explain the use of this word?

Admiral PEET. Ben, do you want to cover that, the word "disposable" here?

Mr. FORMAN. I have no idea. I assume it must be an error.

Mr. PASSMAN. I don't want to delay the hearings because members are going to become impatient. We need an explanation of this and we are going to have to take a little time to find out what it means. I will be asked and I won't have the answer if you don't have it.

Admiral PEET. My understanding, Mr. Chairman, of the excess——

Mr. PASSMAN. We are worried about that word stuck out on the side.

Admiral PEET. I understand.

Mr. PASSMAN. I want to be a perfect gentleman about this. If you don't have it would you please furnish it for the record?

Admiral PEET. Yes, sir.

[The information follows:]

The word "disposable" shown throughout the congressional presentation document was inadvertently used in relation to excess defense articles. These defense articles do not fall into the category generally defined as being disposable property. This terminology will be removed in future publications of the CPD.

MAP SUPPORT FOR CAMBODIAN FORCES

Mr. PASSMAN. It appears that most of the requests for fiscal 1974 will be used to provide ammunition to the Cambodian forces, is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Then I assume that the majority of this military assistance program is designed just to maintain Cambodian forces in the field, is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. On page 17 you indicate that $33,436,000 is programed in fiscal 1974 for other equipment and supplies. Could you tell the committee what is under this category?

Admiral PEET. It is miscellaneous items. We will provide the information for the record.

[The information follows:]

Full track tractors.
Earthmoving and excavating equipment.
Craner and crane-shovels.
Miscellaneous construction equipment.
Materials handling equipment.
Photographer equipment supplies and spare parts.
Parachutes and aerial delivery equipment.
Metalworking machinery.

Special industrial machines.
Power and distribution equipment.
Lights and fixtures.
Other support equipment.
Office machines.
Pumps and compressors.
Prefab and portable structures.
Firefighting equipment.
Clothing, textiles, and individual equipment.
Drugs, biologicals, and surgical dressings.
Other dental and medical supplies.
Hand and measuring tools.
General supplies.
Industrial supplies.
Jet fuel.
Aviation gasoline.
Automotive gasoline.
Diesel fuel.
Chemicals.
Other petroleum, oil, and lubricants.
Construction supplies.

CAMBODIAN TECHNICAL ASSISTANCE

Mr. PASSMAN. Also on the same page, you programed $1,336,000 in fiscal 1974 for technical assistance and special services. Please explain to the committee what is covered under this category.

Admiral PEET. We will provide a statement for the record, sir.

Mr. YATES. Mr. Chairman.

Mr. PASSMAN. I will yield.

Mr. YATES. If you provide it for the record, we don't know what is going on in a sense, because the chairman is following a very coherent kind of examination, and if we could have even a barebones explanation, Mr. Chairman, I think it would be helpful.

Mr. PASSMAN. Do you have any information on this last question?

Mr. VON MARBOD. Technical assistance requested for fiscal year 1974 will provide support to the weapons systems that have been introduced into Cambodia; for example, T–28 aircraft, AU–24 aircraft, and C–123 aircraft. With respect to special services——

Mr. PASSMAN. What are you talking about when you say special services and technical assistance?

Mr. VON MARBOD. I will have to provide information on the special services for the record. It is in the category with technical assistance provided in connection with the weapons systems that we are introducing into Cambodia.

[The information follows:]

Funds programed for fiscal year 1974 Cambodia MAP under the heading of "Special Activities" provide support for psychological warfare operations, including the preparation and distribution of leaflets, pamphlets, and magazines.

Mr. PASSMAN. Then you are not talking about technical assistance as we think about your bilateral technical aid program.

Mr. VON MARBOD. We are not, Mr. Chairman.

Mr. PASSMAN. You are talking about military.

Mr. VON MARBOD. We are indeed.

Mr. PASSMAN. I have nothing but praise for our President getting us out of that mess, and for my money I think we made a terrible mistake not letting him finish this thing in Cambodia, because you are

getting ready to lose the large investment we have made in South Vietnam, but I don't think we should set up a program to continue this.

Admiral PEET. No, sir.

Mr. PASSMAN. The time has come to get these people on their own.

Mr. VON MARBOD. The technical assistance and special services line item, Mr. Yates, also covers pay for the services of the 85 technical contractor support people who are third-country nationals.

[Discussion off the record.]

PIPELINE FOR CAMBODIA

Mr. ROUSH. As a matter of explanation, on page 17 does the chart under "Deliveries and Expenditures" and under the total column here under "Available for DEL/XP," does that mean that that amount is still available and in the pipeline?

Mr. VON MARBOD. That is the amount, sir, that we estimate will be available for delivery during fiscal year 1973. It includes both the pipeline, or the undelivered balance as of June 30, 1972, and the fiscal year 1973 program for Cambodia.

Mr. ROUSH. How much would remain in that column as of the close of the fiscal year 1973?

Mr. VON MARBOD. It depends on the consumption of the material in country, and the country's ability to receive the equipment. In the case of Cambodia, we could analyze the current status and give an updated forecast.

Mr. ROUSH. May I ask, going over then to the last column, about the $164.244 million figure?

Mr. VON MARBOD. That is the amount we estimated would be in the pipeline at the end of fiscal year 1973. However, this estimate was prepared at the time that this presentation document went to the printer. We could update it for you for the record.

Mr. ROUSH. I think it would be valuable, Mr. Chairman, if it was updated.

REQUEST FOR UPDATED PROGRAM FIGURES

Mr. PASSMAN. I wish you would. I want to commend the gentleman. I am glad you brought it up. I want to say at this point that it appears to be awfully high. If you have $164 million in the pipeline under your military assistance program, then I am not going to be too happy over the amount you are requesting. I won't debate it with you because you know what you think you may need, but you were very fair a moment ago to say it is hard to estimate what you will need. This is a pretty big pipeline for this little country. I wonder if you could, as my friend suggested, update these figures, and, if you would, give us a spread on what it represents.

Mr. VON MARBOD. We will be happy to, Mr. Chairman. Ammunition consumption these past months has been high, and for that reason I would prefer to update this table. It is about 6 months old now.

[The information follows:]

The Cambodia MAP pipeline data presented in the fiscal year 1974 CPD was prepared over 6 months ago. Undelivered balances were calculated using an empirical formula applicable to most MAP recipient countries, but which does not reflect the unique situation obtaining in Cambodia. Based upon the most recent reports available, the Cambodia MAP pipeline on June 30, 1973, was

approximately $70 million. This figure represents little, if any, ammunition, being comprised primarily of major items requiring long leadtimes for procurement.

There is no practical way of supporting Cambodia during fiscal year 1974 by reprograming this MAP pipeline.

Cambodia MAP Pipeline Composition as of June 30, 1973.

Article—	*Undelivered balance ($K)*
Aircraft:	
C–47	[Deleted]
C–123K	[Deleted]
T–28B	[Deleted]
T–28D	[Deleted]
T–41D	[Deleted]
UH–1H	[Deleted]
Age and spares	[Deleted]
Ships:	
Patrol craft	[Deleted]
Landing craft	[Deleted]
Spare parts	[Deleted]
Vehicles	[Deleted]
Weapons	[Deleted]
Communication equipment	[Deleted]
Construction equipment	[Deleted]

Mr. TARR. Mr. Chairman, may I add a word. When we prepared this budget for Cambodia, the only basis we thought we could prepare the budget on was the basis that something like the activity in Cambodia would continue. If the activity does not continue, then obviously these expenditures are not appropriate.

Mr. ROUSH. But, Mr. Chairman, the witness says these figures are 6 months old.

Mr. PASSMAN. We just asked them to update them.

Mr. ROUSH. I know, but it seems rather ridiculous to me that they should bring figures 6 months old to this committee and then testify as they have.

Mr. PASSMAN. May I say this. You know the figures that we are looking at in the total budget, they started making this budget up 18 months ago. Any budget you get, I don't care where it is——

Mr. LONG. These are their up-to-date figures?

Mr. PASSMAN. These are up to date. All these budgets are 18 months old. All budgets are starting 1 year and 6 months in advance of presentation. I don't like it, but you know if you started reading the budget from cover to cover, it would take you 6 months and 3 days just to read and understand it.

Mr. ROUSH. I think that the witness should be prepared to give us updated information and facts, not 6 months old facts, when they come in here, even though their budget was printed sometime ago.

Mr. PASSMAN. Let me agree with the gentleman and restate that all budgets are 18 months old before they reach the Congress. That is they were started 18 months ago, and you have to finalize these things at least 3 months in advance of presentation to the Congress. This Government is so complex and so big, I don't know of any way to shorten it. I am just as unhappy over it as you, but it is physically impossible just to pull all of these figures out of the sky overnight and put them on paper. We ask the specific question. Bring us up to date as far as possible.

Mr. YATES. As of what time will it be considered that they have brought these figures up to date?

Mr. PASSMAN. We are going to ask them to project it to June 30. All of our calculations or needs, and our markup will be based upon what they estimate they will have on hand as of June 30.

Mr. YATES. But do they have any actual figures, Mr. Chairman, rather than computations as of a certain recent date?

Mr. PASSMAN. They can possibly go back and give it to you as of June 30 now. What can you do?

Mr. VON MARBOD. The information just now being developed by the accountants will cover the period through March 31, 1973.

Mr. PASSMAN. When will that be available?

Mr. VON MARBOD. It is being developed now, Mr. Chairman. I would estimate that it would be available within 3 weeks from now.

Mr. PASSMAN. Please place it in the record at the quickest possible date. Let me say this for the benefit of the new members of the committee. On foreign aid you have 4,406 projects in 101 nations of the world. You can get an idea of the task that falls to this committee and those are only the ones we can put our fingers on. It would take us 5 years to examine on this program so we have to hit and miss.

Admiral PEET. Mr. Chairman, to put the problem in perspective, we have hundreds of thousands of line items in these programs. Most of the figures are not very far off, but I defy anybody to determine from what is going on in Cambodia right now, what our needs will be in fiscal year 1974. I would be misleading you if I said the figures I am giving right now based on what we think we will need next year for Cambodia were not subject to change as the situation changes.

Mr. YATES. We were asking what is in the pipeline rather than what you expect next year.

Admiral PEET. We can give you a pipeline figure through the 31st of March 1973.

Mr. PASSMAN. We want this, as you know, Admiral, at the conclusion of the hearings.

I would also like an accurate estimate as far as possible on the amount of deobligated funds that you are asking us to reappropriate for new obligations, and of course the amount then of the total unobligated funds.

Admiral PEET. Yes, sir.

[The information follows:]

It is estimated that the deobligated funds which we are asking you to reappropriate for new obligations will amount to $5 million. The estimate for recoupments is $40 million; however, if the current trend in this area of activities continues, the figure of $40 million will be too high and an estimate of $30 million seems more realistic. Reimbursements are expected to reach about $5 million.

INDONESIA

Mr. PASSMAN. If I am not mistaken, Indonesia was stricken with a severe drought during the past year and has had great food shortages, is that correct?

Admiral PEET. That is correct, rice in particular.

Mr. PASSMAN. If that is the case, it looks as though Indonesia will be in great need of food supply instead of military assistance. Would you please comment?

Admiral PEET. Another severe drought could obviously cause another severe food supply situation. However, Indonesia has made

significant strides on its food supply production and programing, and should be in relatively good shape, barring another unusual turn of the weather. Progress in the economic field cannot take place without internal stability and thus, I feel, that our military aid program also contributes to economic improvement in Indonesia.

CIVIL ACTION PROJECTS

Mr. PASSMAN. In the justifications you indicate that some of the equipment supply will be used for civil action projects. Could you tell the committee what sort of projects are under this category?

Admiral PEET. Roadbuilding and the erection of associated bridges are good examples, as these type projects contribute to both military and civilian needs. The various types of engineer equipment can be used for construction of schools and other public facilities in relatively underdeveloped areas, while serving as training for the military personnel involved.

THIRD COUNTRY ASSISTANCE

Mr. PASSMAN. Would you please tell the committee what other countries are supplying assistance and in what amounts?

Admiral PEET. Currently, Australia is the only other country with an active assistance program for Indonesia, although New Zealand has recently indicated the possibility of offering limited amounts of training assistance. The Australian program amounts to about [———] million over a 3-year period.

INTERNAL SUBVERSION

Mr. PASSMAN. Could you please tell the committee what internal subversion presently threatens Indonesia which requires the provision of the U.S. funds?

Admiral PEET. There are currently two [———] insurgencies, one located in West Irian and the other in North Kalimantan along the Sarawak/Sabah border.

U.S. PERSONNEL

Mr. PASSMAN. How many American military personnel are presently stationed in Indonesia?

Admiral PEET. There are currently 70 military personnel stationed in Indonesia.

SHIP TRANSFERS

Mr. PASSMAN. I note that you are programing in fiscal year 1974 $1,802,000 for ships which includes spare parts, but I note under the units provided to Indonesia that there are no ships listed. Would you please tell the committee what these funds will be used for?

Admiral PEET. Those funds will be used to support 24 ships of U.S. origin in the Indonesian Navy, which were transferred in prior years.

TRUCK REQUIREMENTS

Mr. PASSMAN. I note that you plan to provide about 900 trucks to Indonesia in fiscal year 1974. Could you please tell the committee the need for so many trucks?

Admiral PEET. We have about 10 projects in Indonesia which involve the supply of trucks as a normal part of the table of organization, and that number is not considered excessive. These trucks will contribute significantly to internal security and civic action through the balanced support of ongoing projects ——— for rapid deployment of forces and equipment throughout the archipelago. Other related projects are the expansion of a nationwide military communications and control system, engineering construction of roads and bridges, and modernization of the armed forces logistics capability and maintenance facilities.

KOREA

Mr. PASSMAN. If I remember correctly, 3 years ago the United States entered into a 5-year modernization agreement with Korea aimed at updating her armed forces. Since the military assistance program has been reduced rather substantially over the past 2 years has this agreement been adversely affected by these reductions?

Admiral PEET. Orderly progress in implementing the 5-year modernization plan according to the originally envisaged schedule, has been disrupted due to reduction in fiscal year 1972 and 1973 military assistance funding. However, the overall objectives of the modernization program remain valid and it is hoped sufficient resources will be made available to achieve these objectives.

Mr. PASSMAN. Do the Koreans feel that we are not living up to our part of agreement?

Admiral PEET. Korean officials have expressed apprehension regarding the U.S. intention to complete the modernization plan given reduced funding levels in fiscal years 1972 and 1973.

Mr. PASSMAN. What will the total 5-year plan cost the United States in military assistance funds?

Admiral PEET. The modernization plan called for $1.5 billion over the 5-year period fiscal years 1971 to 1975 including the value of excess defense articles and other nonreimbursable transfers.

U.S. EQUIPMENT TRANSFERS

Mr. PASSMAN. In addition to the funds provided under the military assistance program, what additional U.S. equipment has been transfered to Korea during this modernization period?

Admiral PEET. The following major items of U.S. equipment have been transferred to Korea under Public Law 91–652 which permitted transfer of the equipment of withdrawing U.S. forces from the Republic of Korea:

Major Equipment

Helicopters OH–23	[Deleted.]
Utility aircraft U–6	
Landing craft mechanized	
Self propelled artillery (8 in., 175mm)	
Mediums tanks (M–48)	
Trucks (¼T–5T)	
Carbines and rifles	
Machine guns and submachine guns	
Howitzers (105mm, 155mm)	
Recoilless rifles	
Hawk missiles and supplemental equipment	
Honest John missiles and supplemental equipment	

The acquisition value of the equipment transferred is $270.9 million.

The following major items of equipment have been transferred as excess defense articles as of March 31, 1973:

Major Equipment

ASW aircraft (S–2)	[Deleted.]
Trainer aircraft (T–41)	
Cargo aircraft (C–123)	
Helicopter (OH 23)	
Observation aircraft (O–1)	
Utility aircraft (U–6)	
Trucks (¼T–5T)	
Carbines and rifles	
Machine guns	
Bullpup missiles and supplemental equipment	

The acquisition value of the excess equipment transfered is $114.2 million.

The following major items of equipment are being furnished to the Republic of Korea to replace items supplied under Project Enhance Plus to SVN:

Major equipment

M–16 rifle	[Deleted]
Machinegun, cal. .50	
81–mm mortar	
4.2 in mortar	
57–mm recoilless rifle	
106mm recoilless rifle	
105mm howitzer	
155mm howitzer	
¾-ton truck (ambulance)	
2½-ton truck	
5-ton truck	

The following major items were provided to the Republic of Korea at no cost to MAP in satisfaction of the $7.5 million fiscal year 1971 obligation under the Brown memorandum which the United States owed to the Republic of Korea. The Republic of Korea agreed to accept equipment lent to its forces in SVN to discharge the fiscal year 1971 obligation. Total acquisition value of the equipment was approximately [deleted] million.

Major equipment

Observation a/c O–1G	[Deleted]
Airplane, U–21	
UH–1H helicopter	
M–60 machineguns	
105mm howitzer	

U.S. SAVINGS

Mr. PASSMAN. Could you please tell the committee what savings have resulted because of the withdrawal of 20,000 U.S. troops from Korea?

Admiral PEET. It is estimated that the withdrawal of 20,000 U.S. military personnel and the deactivation of the withdrawn division will result in saving to the DOD budget over a 5-year period of approximately $1.1 million.

Mr. PASSMAN. How many U.S. troops do we presently have stationed in Korea?

Admiral PEET. As of April 30, 1973, United States forces in the Republic of Korea total ———.

Mr. PASSMAN. Have any plans been made to withdraw additional United States troops from Korea in the near future?

Admiral PEET. There are no plans to reduce U.S. military forces during fiscal year 1974.

DOMESTIC PRODUCTION

Mr. PASSMAN. In the justifications you indicate that FMS credit will be used to improve domestic production capabilities. Would you please tell the committee what domestic production capabilities you are talking about?

Admiral PEET. FMS credit requested for fiscal year 1974 is intended to support Korean production of small arms ammunition, M–16 rifles and assembly of PRC–77 tactical radios. In addition, we are examing the feasibility of expanding the Republic of Korea arsenal capability in order to produce larger caliber ammunition such as artillery rounds. In the future, similar programs will be considered on a case-by-case basis with the objective of improving Korean self-reliance. This objective is in consonance with the Nixon doctrine to improve the defense self reliance of friends and allies.

DEFENSE CAPABILITIES

Mr. PASSMAN. Would you please tell the committee what are the present defense capabilities of South Korea when compared with North Korea?

Admiral PEET. Both the South Korean and North Korean armed forces must depend in a contingency situation on extensive outside logistics support. The South Korean Army considerably outnumbers the North Korean Army ———. However, replacement of obsolete equipment such as vehicles and communications equipment is still required to maintain the ROK Army readiness posture. In the air, however, the South Koreans are at a definite disadvantage. The North Korean Air Force has nearly 500 jet fighters, some of which are Mig–19 and Mig–21 models, as compared to ——— jet fighters in the ROK Air Force. As a result of this strong North Korean air threat, the ROK air defense capability requires considerable improvement. The North Korean Navy has some missile boats and submarines which represent a threat to ROK shipping. Additionally, the ROK needs a craft capable of countering NK infiltration from the sea. ———.

TROOPS IN VIETNAM

Mr. PASSMAN. Has Korea withdrawn all her troops from Vietnam at the present time?

Admiral PEET. ROK forces were completely withdrawn from South Vietnam in March 1973, in keeping with the provisions of the Paris Accords.

MODERNIZATION EXTENSION

Mr. PASSMAN. Because of the reduction in military assistance funds over the last several years, has this had the effect of extending the 5-year modernization agreement to 6 or 7 years?

Admiral PEET. As a result of reduction in military assistance funds in fiscal year 1972 and fiscal year 1973 it appears that the modernization program cannot be completed in 5 years and must be extended. The time required to complete the objectives of the plan is dependent upon the level of security assistance funding appropriated over the next several years.

GRANT REDUCTION

Mr. PASSMAN. Do you have any estimate at this time when the grant assistance program will be able to be phased out of Korea?

Admiral PEET. There is no firm time estimate as to when grant military assistance to Korea can be phased out; however, following completion of the modernization program it is expected that grant assistance can be drastically reduced.

AIRCRAFT REPLACEMENT

Mr. PASSMAN. On page 21 you indicate that in fiscal year 1974, ——— F–5E aircraft are scheduled to be provided to Korea. Are those aircraft to be added to the present inventory or to replace obsolete aircraft?

Admiral PEET. The ——— F–5E aircraft in the fiscal year 1974 request are scheduled to replace obsolete F–86 aircraft currently in the ROK Air Force inventory.

PHILIPPINES

Mr. PASSMAN. On page 22 you make the statement that the U.S. military interest in the Philippines stems from several closely related factors, ———. Would you please tell us the committee why this is such a strategic country?

Admiral PEET. The Philippines are strategically located near the midpoint of the periphery of Asian nations extending from Korea to Indonesia. The U.S. Naval complex, composed of Naval Base Subic Bay, Naval Air Station Cubi Point, and Naval Communication Station Philippines, provides a full range of naval air, ship repair, logistics, and command, and control support functions, ———. These bases are 1,350 to 1,750 miles closer to Southeast Asia than are Sasebo, Guam, and Yokosuka. They thereby provide a significant advantage for naval and air forces conducting operations in the South China Sea, Indian Ocean, and Southeast Asia. ———. The Subic/Cubi complex provides efficient support for operations throughout a major portion of the Southeast Asia littoral and well into the Indian Ocean.

DEBT BURDEN

Mr. PASSMAN. You indicate in the justifications that the Philippines face a serious debt servicing burden. Could you tell the committee to what country the Philippines owes most of its money to?

Admiral PEET. The largest single foreign creditor of the Philippines is the United States.

Mr. PASSMAN. What other countries does the Philippines owe money to?

Admiral PEET. The Philippines also owes money to Japan, West Germany, the United Kingdom, France, Canada, and international banking institutions (IBRD and IMF).

INTERNAL PROBLEMS

Mr. PASSMAN. On page 22 you indicate that the United States has to provide a certain amount of assistance or the Filipinos may fear that the United States is losing interest in her country which in turn might affect the security of the U.S. bases there. Would the security of the U.S. bases there be threatened because the Philippine Government would be unable to hold down the uncertainties within her country?

Admiral PEET. I would consider that possible, but not probable. Such possibilities will depend significantly on the course of events over the next year and associated progress of the Philippine Government in instituting socioeconomic reforms, while keeping insurgency movements under control.

Mr. PASSMAN. Could you please tell the committee what the present internal situation is in the Philippines at the present time?

Admiral PEET. The Muslim insurgency in the southern area is a significant internal threat. At the moment it has been stabilized, but could regenerate at any time. The Communist insurgency in the northern area is relatively dormant at this time, but represents a more direct threat to our U.S. base interests which are in that sector. The Philippine Government has been under martial law since September 1972, in order to effectively deal with insurgency problems and to institue socioeconomic reforms.

Mr. PASSMAN. Have the U.S. bases and facilities in the Philippines been threatened in this past year?

Admiral PEET. There have been no significant threats during this past year.

AIRCRAFT NEEDS

Mr. PASSMAN. On page 23 I note that you plan to provide ——— C–119 aircraft to the Philippines in fiscal year 1974. Could you tell the committee why the Philippines need such a large number of these cargo aircraft?

Admiral PEET. One need only to look at a map of the Philippines to see the need for air and sea transport within that island archipelago. Moreover, the Philippines is in the typhoon belt and is faced, annually, with the need for civic action/disaster relief operations in all areas to one degree or another.

THIRD COUNTRY AID

Mr. PASSMAN. What other countries are providing assistance to the Philippines and in what amounts?

Admiral PEET. ———.

GAO REPORT

Mr. PASSMAN. In a GAO report dated April 12, 1973, entitled "Military Assistance and Commitments in the Philippines," there were many criticisms directed toward the military assistance program. Several of these criticisms are as follows:

> The Department of Defense continued to provide military assistance to the Philippines although the Philippine Government had not provided adequate financial support for its own forces. Furthermore, the Philippine Government did not furnish the sources necessary to effectively use the military assistance provided.

Would you please comment on the criticisms contained in the GAO report and indicate what has been done to correct this situation?

Admiral PEET. The Defense position to the referenced GAO report is covered in some detail in appendix II to that report. DOD disagreed with the conclusion which the GAO report drew from the finding of inadequate financial support. DOD rationale is based on the purpose of the Foreign Assistance Act of 1961 which points toward providing assistance to countries which cannot support their own needs. Notwithstanding, the GOP has been making positive efforts to improve its self-reliance. The Armed Forces budget has been increased to meet extra costs involved with providing a more self-reliant security program, which includes the goal of more efficient utilization of resources. U.S. assistance constitutes only about 10 percent of the total required to sustain and modernize the Philippine Armed Forces (AFP). By providing items which are difficult to make or obtain. U.S. assistance continues to help the AFP make continued progress toward self-sufficiency.

THAILAND

Mr. PASSMAN. The next country we will consider in this region is Thailand for which the fiscal year 1974 program is estimated to be $55,762,000 an increase of $19,880,000 above the current fiscal year program. Would you please tell the committee briefly the need for this large increase over fiscal year 1973 funds?

Admiral PEET. For fiscal year 1973 we requested $60 million in grant aid for Thailand. Because we were forced to operate the worldwide military assistance program during fiscal year 1973 on reduced CRA funding, it was only possible to allocate to Thailand a portion of our original request, which did not satisfy the program objectives. The fiscal year 1974 request in fact represents a small decrease from the fiscal year 1973 request.

Mr. PASSMAN. In the justifications you indicate that this assistance is needed ———. It appears that possibly some of our objectives in Southeast Asia have changed since the cease-fire was signed. Could you please tell the committee what the U.S. objectives are at the present time in light of the current cease-fire agreement?

Admiral PEET. As Mr. Kissinger noted in his press conference of January 24, 1973, during which he discussed the imminent Vietnam agreement, the deployment of U.S. forces to Thailand would be related to the degree of danger in this region. We have indicated that until North Vietnam's intentions and actions vis-a-vis the cease-fire agreement become clear, and the Indochina situation becomes more stable than it is at present, it will be necessary to maintain U.S. forces in Thailand. Once a cease-fire has been accomplished in Cambodia, and once North Vietnam's performance of its obligations under the cease-fire agreement is satisfactory, it will be possible to review the need for the current level of forces there, and hopefully to begin a gradual, phased reduction in the level of these forces.

FOREIGN EXCHANGE

Mr. PASSMAN. Also on page 24 you indicate that U.S. military grant assistance is essential to minimize the adverse impact that necessary military improvement measures would otherwise have on Thai economic and soical development. Could you please tell the committee what the present foreign exchange balance is in Thailand?

Admiral PEET. Thailand: Official reserves—in millions of U.S. dollars—as of January 28, 1973:

Monetary authorities:	
Gold	$98.8
SDR's	34.4
IMF gold tranche position	40.4
Foreign exchange	1,036.4
Subtotal	1,210.0
Commercial banks:	
Assets	237.6
Liabilities	358.8
Subtotal	—121.2
Total	1,088.8

AID REDUCTION

Mr. PASSMAN. You state also that you anticipate reducing the level of U.S. grant aid to Thailand as their capability to counter the insurgency is achieved. Could you tell the committee if there is any timetable when the reduction of this grant aid will come about?

Admiral PEET. Our military assistance program to Thailand focuses on the improvement of Thai capabilities to counter the insurgency. Because of the uncertain nature of the insurgent threat, and the capacity for its level and scope to be significantly influenced by external factors such as instability in neighboring countries or increases in foreign Communist support, we cannot project any precise timetables for a reduction in grant aid. However, we would expect, given the extension of current trends in the insurgency and Thai counterinsurgent capabilities, that continued improvements in Thai capabilities will permit reductions to occur.

U.S. SUPPORT OF THAI FORCES

Mr. PASSMAN. In a newspaper article, it was stated that about 16,000 to 17,000 Thai irregular forces are serving in Laos which cost the American taxpayer $100 million a year. Are these figures still valid and from what account is this money provided?

Admiral PEET. The statistics in the article are not precise but are of the proper order of magnitude. ———.

THIRD COUNTRY ASSISTANCE

Mr. PASSMAN. Could you please tell the committee what third country assistance is being provided to Thailand and in what amounts?

Admiral PEET. The most recent figures available for assistance to Thailand by international organization and third countries are as follows (in millions of U.S. dollars):

IBRD (fiscal year 1972)	42.2
Asian Development Bank (fiscal year 1972)	18.0
UNDP special fund (fiscal year 1972)	3.8
UNDP technical assistance (current year)	.6
Other U.N	2.4
Japan (current year 1971)	———
Germany (current year 1971)	———
All other DAC members (current year 1971)	10.5

EQUIPMENT DELIVERIES

Mr. PASSMAN. On page 25 I note that you plan to deliver a very small amount of equipment during fiscal year 1973. Could you tell the committee why these deliveries are so small during the current fiscal year?

Admiral PEET. The amount of equipment noted on page 25 to be delivered during fiscal year 1973 reflects only deliveries funded by Foreign Assistant Act funds during fiscal year 1973. As you know, from fiscal year 1968 to fiscal year 1972, military assistance to Thailand was funded from military department appropriations under MASF procedures. In addition to MAP-funded deliveries, $85.3 million of defense materials and services funded in previous years under MASF is expected to be delivered during fiscal year 1973.

QUALIFIED PILOTS

Mr. PASSMAN. Also on page 25, you indicate that quite a large number of aircraft are scheduled to be provided to Thailand in fiscal year 1974. Does Thailand have the capability of providing qualified pilots for these aircraft?

Adimarl PEET. Military equipment is provided to foreign governments under the MAP program only after it has been ascertained that the recipient can effectively utilize the equipment. As of the fourth quarter of fiscal year 1973, the Royal Thai Air Force (RTAF) had ——— rated pilots and an in-country capacity to train ——— pilots/year ——— are expected to be graduated this year, which will satisfy all the undergraduate pilot training requirements anticipated as a result of aircraft to be provided under MAP. The United States will have to provide some special training through MAP or FMS.

U.S. TROOPS IN THAILAND

Mr. PASSMAN. How many U.S. military personnel do we have stationed in Thailand at this time?

Admiral PEET. There are approximately 44,000 U.S. military personnel stationed in Thailand at this time on both a permanent and temporary basis.

REPUBLIC OF CHINA

Mr. PASSMAN. Is it not true that you are programing $5,700,000 for supply operations to the Republic of China for fiscal year 1974?

Admiral PEET. Yes.

Mr. PASSMAN. Would you please tell the committee what this amount for supply operations will be used for?

Admiral PEET. This figure—$5.7 million—covers P.C.H. & T. for items in the pipeline from prior years program which are estimated for delivery in fiscal year 1974.

Mr. PASSMAN. Is it not also true that you have programed presently $500,000 for training in fiscal year 1974 for the Republic of China?

Admiral PEET. Yes.

Mr. PASSMAN. If I am not mistaken, both of these costs used to be counted in the grant aid program several years ago; is that not correct?

Admiral PEET. Yes. We in Defense, together with Dr. Curtis Tarr, the Under Secretary of State for Security Assistance, have been seeking means to more effectively use our security assistance programs. The importance to training foreign military and military-related civilian personnel under the grant program must be emphasized. We generally recognize that the training element of the security assistance program, dollar for dollar, represents a productive investment in influence and in developing friendly countries self-sufficiency.

The funding for supply operations continues to be included within the military assistance program.

CREDIT SALES PROGRAM

Mr. PASSMAN. Even though the grant aid program to the Republic of China has been greatly reduced, we are still providing a rather substantial foreign military credit sale program to this country, is that not correct?

Admiral PEET. The Republic of China has undertaken a sizable FMS credit program. In fiscal year 1974, it is anticipated that $65 million in FMS credit will be provided.

Mr. PASSMAN. Is this not an indication that the Republic of China has been one of the success stories in our military aid program by converting from grant aid to military credit sales?

Admiral PEET. Yes.

MAINTAIN COMMITMENTS

Mr. PASSMAN. Is it not true that the United States fully intends to honor all its treaty commitments with the Republic of China?

Admiral PEET. In President Nixon's U.S. Foreign Policy Report to the Congress of May 3, 1973, the following is stated in part on page 108:

* * * The United States has maintained a policy of friendship for the 15 million people of Taiwan. We retain diplomatic ties, commitments under the Mutual Defense Treaty of 1954, and close contacts with them.

ECONOMIC GROWTH

Mr. PASSMAN. The way I read the record the Republic of China has experienced extremely successful economic growth in the last several years. Is this not the reason that we have been able to phase out our grant military aid program to this country?

Admiral PEET. Yes. Except for $0.5 million for training only. The Republic of China future defense material requirements will be financed entirely with cash and FMS credit.

GAO REPORT

Mr. PASSMAN. In a General Accounting Office report dated August 29, 1972, there were several recommendations made for the United States to pursue with the Republic of China. Some of these recommendations were as follows: ———. Would you please comment on these recommendations and indicate what actions have been taken?

Admiral PEET. The Department of Defense responded to the GAO report by letter of November 30, 1972. ———.

MALAYSIA

Mr. PASSMAN. Would you please tell the committee what type of insurgency is present in Malaysia at the present time which would require the United States to provide equipment?

Admiral PEET. Malaysia has active Communist insurgencies on two fronts, in the north along the Thailand border, and to the east where Sarawak borders the Indonesian, Kalimantan territory. We do not provide any equipment under grant aid to Malaysia, but do have an ongoing sales program.

Mr. PASSMAN. You indicate in the justifications that a training program is scheduled for fiscal year 1974 of $200,000. Could you then explain to the committee why the United States feels it must provide this assistance?

Admiral PEET. ———.

Mr. PASSMAN. Could you please tell the committee what third countries are providing assistance to Malaysia and in what amounts?

Admiral PEET. ———.

PROJECT ENHANCE

Mr. PASSMAN. The last item to be considered in this region is Project Enhance for which the fiscal year 1973 program was $41,200,000 and the estimated fiscal year 1974 program is $28,300,000.

Would you please explain to the committee just what this Project Enhance Plus is?

Admiral PEET. Project Enhance Plus is the identifying name for the series of equipment transfers to the Republic of Vietnam ———.

Mr. PASSMAN. You indicate that quite a large amount of these funds are needed for bailment cost. Could you please tell the committee what bailment costs are?

Admiral PEET. Bailment costs are the costs incurred by MAP for loaning the aircraft and associated supporting equipment to the MAP recipient ——— under section 503 of the Foreign Assistance Act. Costs include the payment of a monthly depreciation charge to the Department of Defense organization which has loaned the equipment, spare parts for the equipment, and reconditioning of the equipment upon return to U.S. inventories.

Mr. PASSMAN. Is it correct to say that these funds are needed to reimburse the various countries for equipment that you borrowed from them to ship to Vietnam prior to the cease-fire agreement?

Admiral PEET. No, sir. We did not borrow the equipment as such. Rather the equipment was returned from the MAP country to MAP ownership, was transferred by MAP to the military departments, and was then transferred to Vietnam under the military assistance service funded program. The MAP funds requested for fiscal year 1974 are to ———. The fiscal year 1973 MAP account has borne $41.2 million of these costs, subject to reimbursement from the MASF accounts.

Mr. PASSMAN. Where do you plan to get the funds to reimburse the military assistance program for these costs?

Admiral PEET. We plan to be reimbursed from fiscal year 1974 funds appropriated to the Defense Department under the MASF program for the value of the F–5A's transferred by MAP to the military departments.

Mr. PASSMAN. Is there a request in the defense appropriations bill for ——— million in fiscal year 1974 to reimburse the military assistance program for the fiscal year 1973 and fiscal year 1974 Project Enhance costs?

Admiral PEET. That is the amount requested to reimburse MAP for the value of the equipment transferred to the Military Departments.

Mr. PASSMAN. Of the total funds reimbursed, will all this reimbursement be used to just replace the equipment that was sent from these countries to Vietnam?

Admiral PEET. The funds will be used to fund the MAP.

Mr. PASSMAN. Will any of the funds that you are requesting for reimbursement be used to upgrade equipment that was in these countries?

Admiral PEET. Some of the funds will be used to complete financing of ——— F–5E aircraft to ——— to replace the ——— F–5A aircraft which were transferred to the Republic of Vietnam. The F–5E has superior capability to the F–5A, so in that instance we are upgrading equipment.

Mr. PASSMAN. You indicated that a great deal of aircraft were shipped to South Vietnam prior to the cease-fire. Are you convinced that the South Vietnamese have the capability of maintaining and piloting all these aircraft?

Admiral PEET. The overall goal of the Vietnamization program included the self-sufficiency of the RVNAF in providing for their own incountry security against the North Vietnamese. Throughout the planned improvement and modernization of RVNAF, new arms and equipment were provided to all service components; however, additional unprogramed military equipment was required to counter the more sophisticated enemy weapons used in the massive invasion of

last year. Additionally, the successful RVNAF counteroffensive coupled with the subsequent imminent Paris negotiations, required the accelerated delivery of equipment already programed for the RVNAF.

Near East and South Asia

Mr. Passman. As we go to the Near East and South Asia region, we find that your estimate for fiscal 1974 is $121,133,000.

Admiral Peet. Yes, sir.

Mr. Passman. That is an increase of $26,987,000 over your fiscal year 1973 program, is that correct?

Admiral Peet. Yes, sir.

OPERATION AND INVESTMENT ALLOCATIONS

Mr. Passman. What amount and percent of the total proposed program for fiscal year 1974 will be allocated for operation and investment?

Mr. von Marbod. Mr. Chairman, for fiscal year 1974, we estimate that 17 percent of the Near East and South Asia program will be allocated to operating costs and 83 percent to investment costs.

Mr. Passman. I wish there was some way that I could comprehend the actions of some of our people, both military and civilian. We are the elected representatives of the people and we must protect them from excessive spending practices. The time has come when we are either going to get our fiscal house in order or we are going to completely isolate ourselves. I sat here and argued with the Assistant Secretary of the Treasury the other day about the trouble the dollar was in. He was upset that I would even suggest the dollar was going to decrease in value again. Now the dollar lost about 5 percent just since I had the discussion with him.

TRAINING IN INDIA AND PAKISTAN

Let's lok at India and Pakistan which is handled under this region. We have given to India net aid of $7,772,000,000. You don't actually have to be smart to know that India is not pro-United States.

We have given to Pakistan, $4,434,000,000 in net aid. Of course both countries are siphoning off funds out of the international organizations, as I brought out earlier, where they put in $1 and take out $40 or $50.

You are asking for money to train Indian and Pakistani troops in fiscal year 1974, aren't you?

Admiral Peet. Yes, sir, we are requesting funds for a training program.

Mr. Passman. What is the benefit and the profit to our great country, Admiral?

Admiral Peet. Dr. Tarr.

Mr. Passman. All right, the admiral yields to the Under Secretary of State.

Mr. Tarr. Mr. Chairman, the logic of these training programs——

Mr. Passman. What logic? Whose logic?

Mr. TARR. Our logic for these training programs is that it is of some assistance for us to continue to maintain contacts with the military people in these nations.

Mr. PASSMAN. I don't want to be ugly. You mean you want to build them up now so they can start another war between themselves out there and knock out all the equipment we have given them?

Admiral PEET. No, sir, Mr. Chairman, that isn't our objective.

Mr. PASSMAN. Admiral, if you train people, you understand, to use guns, then they are going to want guns.

Admiral PEET. The use of guns isn't the extent of our training.

Mr. PASSMAN. You are talking about military training. You are not in the economic aid field. Aren't you talking about a military training program for India?

Admiral PEET. Across the board.

Mr. PASSMAN. I am talking about India and Pakistan.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Aren't you training their military personnel?

Admiral PEET. Yes, sir. Looking at it from the point of view of the country team in India, the Ambassador's point of view——

Mr. PASSMAN. Who is Ambassador there?

Admiral PEET. Ambassador Moynihan.

Mr. PASSMAN. A fine man. I bet he couldn't load a double barreled shotgun. What does he know about the military needs of India?

Admiral PEET. But he does know that the influence and contacts we gain by military to military relationships in India are very helpful.

Mr. PASSMAN. What contacts? Can't you have contacts without military?

Admiral PEET. It is very difficult in some of these countries to maintain contacts without the military.

Mr. PASSMAN. This is something that has sprung up since World War II trying to teach everybody how to fight, train them, and then later give them guns. I respect these people and I respect you but regardless of how heavily you draw upon your imagination, to go back into Pakistan and India with a training program and you know very well the Communists are furnishing equipment to Pakistan and India.

Now you go into India: don't you have one or two MIG plants in India put there by the Russians?

Mr. TARR. We have at least one that I know of.

THE RUSSIAN PRESENCE

Mr. PASSMAN. Not we. Let's say the Russians have a Mig plant. They have a submarine base underway there, don't they?

Mr. TARR. I don't know about the submarine base.

Mr. LONG. I want to offer my hearty agreement with what the chairman is saying. I agree with him 100 percent.

Mr. PASSMAN. It is hard to comprehend why we provide this training.

Admiral PEET. This item is primarily a political one as far as India is concerned.

Mr. PASSMAN. It is all political.

Admiral PEET. The Russians have thousands of people in India.

Mr. PASSMAN. Let them have them in there. We are not competing with the Russians.

Mr. LONG. Would the chairman yield on that?

Mr. PASSMAN. I yield.

Mr. LONG. We are acting as if we put a lot of military people into a country we gain their friendship. I want to cite you one case.

Admiral PEET. That is just one factor.

Mr. LONG. And make an observation in which the presence is counterproductive. That was the case of the Russians in Egypt. We thought it was a terrible thing when the Russians went into Egypt. I went there last year and talked to all our diplomatic people and talked to the Egyptians themselves and their leaders. There is one thing that they all agreed on. They hated the Russians like poison. Everything the Russians did had made them mad. Sadat himself whom I sat with and talked with for an hour told me—he didn't put it in quite those terms, but he did say "I don't want any foreigners on my soil." It wasn't too long afterward that he ordered them out.

The Russians bungled it when they built the Aswan Dam. I have seen reports that this dam may be one of the greatest tragedies to Egypt because of the effects of it, destroying the normal ecological balance, accelerating the siltation and spreading parasitic snails.

I saw a steel mill that the Russians built about 30 miles out of Cairo that would have been obsolete 30 years ago and they just got it built. It is the most pathetic operation I have ever seen. They had 600,000 people turning out a couple hundred tons of steel a year. They brought the ingots and the coal all the way from Russia, put the material through this mill in kind of a demonstration operation, and then sent it all the way back to Russia again. You know, a total phony operation.

Mr. PASSMAN. I agree with you.

Mr. LONG. We felt terrible when the Russians went into Egypt, but I will bet you that that was one of the best things so far as our getting along with Egypt. They all agreed that the Americans were pretty popular. Even then the American planes were being used by the Israelis to bomb Cairo, but nobody had any grudge against the Americans. It is the Russians they all detest.

BRINGING THE AID PROGRAMS UNDER CONTROL

Mr. PASSMAN. Giving away our weapons to secure friends is indeed a new concept which started after World War II. I would hate to bore you with this story, but I do know what the record shows. When they started this so-called economic aid program for Europe, it took the older members, who were very courageous, and clothed with seniority to go down to the well of the House and say, Mr. Speaker, we are now embarking upon a program that could conceivably take us into 17 European nations. The cost may reach $15 billion, and it may require 5 years to finish the program."

Now you contrast $15 billion to $250 billion. You contrast 17 nations to 127 nations that we went into with this foreign-aid program. Five years? No. You are in the 26th year and still going strong. Now either you people bring it under control or let us bring it under control.

I respect you, but when I see that you people are asking for military training for India and Pakistan, it just doesn't make sense, especially when we have poured some $12 billion of our wealth into those countries.

We say that we want to trade with Russia and China, and we made a big grain sale to Russia and I applaud it. I think we are getting back badly needed dollars and gold and that is the way to get along, to go out and fight for these world markets and get our minds off war. If we are going to follow that philosophy, let the Russians come on in to aid these countries. Let them spend all the resources they want to. I don't see why the United States would take it upon itself to think it is going to influence other people of the world by paying out these tidbits. I just don't think you are going to do it. We have to talk this way because of the sad, sad plight of the dollar. Of course we are in trouble.

Admiral PEET. Mr. Chairman, may I put in the record a detailed breakdown of what we plan for India and Pakistan?

Mr. PASSMAN. Put in all the information you can but don't fail to recognize one thing. You are asking for money for a military assistance program in both Pakistan and India. Training it may be, but you know and I know, Admiral, that usually training leads to guns and equipment. Otherwise there won't be any use in training them. You are not training them to hunt doves, are you?

Admiral PEET. No, sir.

[The information follows:]

SECURITY ASSISTANCE PROGRAMS FOR INDIA AND PAKISTAN

There is no grant military assistance and no FMS credit proposed for India or Pakistan in fiscal year 1974. Under the international military education and training program, the following is proposed for India and Pakistan in fiscal year 1974: India, $200,000 (23 students); Pakistan, $243,000 (52 students).

RECENT DELIVERIES TO INDIA AND PAKISTAN

Mr. PASSMAN. Has the United States shipped any military equipment to these two countries during the current fiscal year, no matter what source it may be from, such as cash sales, commercial sales, or the Export-Import Bank?

Mr. TARR. Yes, I think we have.

Mr. PASSMAN. What category?

Mr. TARR. We will have to put that in the record.

[The information follows:]

MILITARY DELIVERIES TO INDIA/PAKISTAN—FISCAL YEAR 1973

During the current fiscal year, deliveries of military equipment to India amounted to $38,000 under FMS cash sales. This was for miscellaneous supplies. Shipments to Pakistan during the same time frame amounted to ——— M–113A1 armored personnel carriers. This was also a FMS cash transaction which was approved in 1970. Shipment was delayed due to the embargo.

Commercial exports during fiscal year 1973 to India and Pakistan

Commodity	*Value*
India:	
Aircraft C–119 spares	$761
HC–434 polymer	6,360
Revolvers, 2	[1]184
Total	7,305

[1] Cosigned to individual(s) for personal use.

Commercial exports during fiscal year 1973 to India and Pakistan—Continued

Commodity	*Value*
Pakistan:	
Aircraft, T-33 spares	$159,680
Miscellaneous aircraft C.P.A. & A	17,000
Parachutes, 264	77,352
Military electronic C.P.A. & A	118,409
Revolver, 1	[1] 74
Ammunition, .38 caliber, 200	24
Riot control agents	16,678
Total	389,217

[1] Consigned to individual(s) for personal use.

Mr. TARR. The nature of things that we have delivered are parts for equipment that already had been sold to them or given to them.

Mr. PASSMAN. Through what accounts did they finance it? Does anyone know?

Gentlemen, if you don't have the answer, put it in the record.

[The information follows:]

The FMS items delivered to India and Pakistan were cash transactions.

U.S. POLICY IN INDIA AND PAKISTAN

Mr. PASSMAN. Could you tell the committee what the position is of the United States with regard to the shipment of military equipment to these two countries at this particular time?

Admiral PEET. Yes, I have that here. There was a Presidential directive dated March 12, 1973, which terminated the embargo and reinstated the military supply policy originally promulgated in April 1967. That policy allowed direct government-to-government and commercial cash sales of spare parts for previously supplied equipment and of nonlethal end items.

Mr. PASSMAN. To what country?

Mr. TARR. Both.

Admiral PEET. To Pakistan and India, sir. Our policy regarding the sale of nonlethal end items and ammunition was administered on a selective and limited, case-by-case basis. Decisions under the policy were made with certain criteria in mind, notably whether or not a particular sale would contribute to an arms race in South Asia or would lead to a significant diversion of resources from development to defense.

Mr. PASSMAN. What kind of ammunition, blanks?

Admiral PEET. No, sir.

Mr. PASSMAN. Popgun ammunition or something else nonlethal. I am just wondering what kind of ammunition was provided.

Admiral PEET. We haven't sold any ammunition since the embargo was lifted.

Mr. PASSMAN. But you included it in what you just read in the record.

Admiral PEET. Yes, sir, sale of ammunition would be considered on a case-by-case basis.

Mr. PASSMAN. Are you not contradicting yourself?

Admiral PEET. This is the policy that has been put into effect.

Mr. LONG. This was in 1967.

Admiral PEET. It was the policy then and it was reinstated when the embargo was lifted last March.

Mr. YATES. If it is nonlethal what is it doing in the program?

Mr. LONG. Only 2 years before that I was on the Pakistan-India border just after a battle between India and Pakistan and saw acres and acres of equipment that we had been giving both sides that had been destroyed in that war.

Mr. PASSMAN. Let's take a brief recess.

Admiral PEET. That was one of the factors which helped to stop it.

[Short recess.]

Mr. PASSMAN. The committee will come to order. I guess we had better get this on the record.

Admiral, where do India and Pakistan purchase most of their military equipment from since the U.S. suspension of the MAP program to these two countries in 1965?

PRINCIPLE SUPPLIERS OF ASSISTANCE TO INDIA AND PAKISTAN

Admiral PEET. Pakistan from China and India from Russia.

Mr. PASSMAN. I believe under our understanding over a period of years that we provided no military equipment for India, making an exception only when they were attacked by China; is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. So we actually poured billions of dollars into India in economic grant aid while they were using their resources to purchase equipment from Russia. Would you accept that as a factual statement?

Admiral PEET. Yes, sir.

Mr. PASSMAN. I appreciate that. You ought to get two more stars. It almost runs me crazy to realize these are the facts of life. This is really frightening. We just pour money in by the billions of dollars and then they turn around and buy military equipment from Russia.

No doubt the Russians make a good profit, too. Let's not forget, as I mentioned, Mr. Yates, this unbelievably high figure of nearly $8 billion in bilateral aid to India. They also collected out of IDA, this international organization, $1,751,000,000. Remember that we put up 40 percent of IDA, and the closest nation is Great Britain with 12 percent. Yet Great Britain has extremely favorable, profitable trade ties with India, so really the donor becomes the recipient. How about Pakistan now. In addition to their $4.4 billion in bilateral aid, they picked up $523 million out of IDA.

INDIA AND PAKISTAN

What amounts of military assistance have India and Pakistan received from Communist nations since 1965? List each contributing country and the amount contributed.

Admiral PEET. Since 1965, India and Pakistan have negotiated security assistance agreements with Communist countries in the amounts shown below (value in million U.S. dollars). It is estimated that most all of the equipment covered in the agreements has been delivered.

	Amount
India:	
U.S.S.R.	------
Czechoslovakia	------
Poland	------
Bulgaria	------
Total	------
Pakistan:	
PRC	------
U.S.S.R.	------
Czechoslovakia	------
Total	------

MIDDLE EAST

Mr. PASSMAN. You state that the replacement of the existing regimes might seriously jeopardize the vital enterprise of constructing a desirable peace. Do you think the United States should be in a position of trying to maintain a government in a certain country?

Admiral PEET. Again, this is perhaps a question outside my official purview. But in my opinion, it is not so much a matter of whether the United States should seek to impose or maintain a given government on a country, but whether U.S. support contributes to the security, stability, and well-being of a country, consistent with our own interests and objectives.

GREECE

Mr. PASSMAN. Do you feel that the Greek armed forces are an effective fighting force that are essential to the North Atlantic Alliance?

Admiral PEET. I believe that the Greek forces remain fully committed to NATO and are effective and capable in carrying out assigned NATO missions. This has been demonstrated by Greek units participating in the recent NATO military exercises Dawn Patrol and Alexander Express. Modernization of their forces is important and FMS credit proposed in the fiscal year 1974 security assistance program will help the Greeks in attaining that objective.

Mr. PASSMAN. What countries have withdrawn support from the Greek Government over the past 2 years and why was this support withdrawn?

Admiral PEET. We are aware that the Federal Republic of Germany (FRG) has suspended a modest grant aid program for the Greeks, but we do not know the reason for this decision. However, during the past 2 years, the FRG has provided submarines and Cobra antitank weapons. France has supplied AMX tanks and fast patrol craft with the Exocet missile. Additionally, Italy, the United Kingdom, and the Netherlands have provided radio sets and infrared binoculars while Canada continues to provide spare parts support for the T–33 aircraft in the Greek inventory.

TURKEY

Mr. PASSMAN. Are the Turkish Armed Forces also an effective fighting force that is essential to the NATO agreement?

Admiral PEET. Turkey is a staunch and dedicated supporter of NATO, and is fully aware that its strategic location on NATO's south-

eastern flank requires it to be strong. Turkey's commitment has been demonstrated repeatedly by the very capable performance of its Armed Forces in various NATO exercises. The Turks must continue programs to modernize their forces if the southeastern flank is to remain strong. U.S. security assistance still plays a major role in this regard.

IRAN

Mr. PASSMAN. You point out that Iran has been an example of a major security assistance success in that you used to provide them with grant assistance and military credit sales but now all of this assistance has been terminated. Could you tell the committee how much the United States has provided to Iran from all sources?

Admiral PEET. I will place it in the record.

[The information follows:]

IRAN

U.S. overseas loans and grants, fiscal years 1946–72

[In millions of dollars]

ECONOMIC PROGRAMS	
A. Official development assistance:	
AID and predecessor agencies, total	600.8
Loans	219.7
Grants	381.1
Food for peace, total	112.5
Title 1, total	56.8
Repayable in U.S. dollars, loans	17.6
Payable in foreign currency (planned for country use)	[1] 39.2
Title II, total	55.7
Emergency relief, economic development, and world food	33.1
Voluntary relief agencies	22.6
Other official development assistance	42.0
Peace Corps	14.7
Other	27.3
Total, official development assistance	755.3
B. Other official economic programs:	
Export-Import bank loans	336.6
Other loans	84.3
Total other official loans	420.9
Total economic programs	1,176.2

[1] Includes $10.5 million for common defense under Section 104(c), Public Law 480, of which $4.6 million is on a loan basis.

U.S. overseas loans and grants, fiscal years 1946–72—Continued

[In millions of dollars]

MILITARY PROGRAMS

Sec. assistance (changed to FAA or FMSA appropriations)	1,340.7
Sales credits (FMS)	504.0
Grants	836.7
Transfers from excess stocks (Public Law 91–672 value)	20.6
Ship loans	12.7
Export-Import Bank military loans	[2] 220.0
Total military programs	1,594.0

[2] Iran is now classified as "developed" by the Export-Import Bank.

Mr. PASSMAN. Could you tell the committee if Iran is pro-United States at this time?

Admiral PEET. The United States has had a friendly relationship for many years with Iran. There are many areas of close cooperation, both official and unofficial, in the economic, political, and social spheres. This situation exists in the military and national security area. In addition to our military advisory effort the two countries continue to cooperate in CENTO. The grant aid relationship has now been phased out, partially at Iran's request, but Iran still looks to the United States as the primary source for the purchase of the military equipment and advice it needs. Similarly, Iran looks to the United States as the major source of overseas training for its military personnel, and at this time there are more than 1,000 Iranian military personnel receiving military training here. Finally, Iran is most cooperative with the United States in providing access and overflight rights for our use.

JORDAN

Mr. PASSMAN. Is it likely that these subsidies from Arab states to Jordan would be continued at some later time?

Admiral PEET. This question falls more properly within Dr. Tarr's field.

MIDDLE EAST BALANCE

Mr. PASSMAN. Do you feel that U.S. military aid provided to the Middle East will help to maintain the balance of power and ease tensions in that area of the world?

Admiral PEET. Military aid in the form of arms, equipment, training, etc. is not the only ingredient but it is one highly important factor. For example, it helped restore a military balance following the Soviet and Egyptian buildup along the Suez Canal after the cease-fire went into effect in August 1970. I believe that this has been a major factor in maintaining the cease-fire since that time. Obviously, diplomatic efforts to maintain the cease-fire and to seek a negotiated settlement

must also be continued. As another example, I might also add that the supply of arms to Jordan over the years has been an essential element in helping King Hussein maintain stability in his kingdom.

Mr. PASSMAN. Since there have been lengthy discussions on the possibility of a fuel shortage in the future, does U.S. military aid to the Middle East take on more importance since large oil deposits are located there?

Admiral PEET. That's a difficult matter to measure. It would be easy, even natural, to assume that the U.S. motivation for military assistance to Middle East nations is the result, basically, of our interest in Middle East oil. But the situation is considerably more complex than that. The United States has also had longer standing ties, military and nonmilitary, with the Persian Gulf area, chiefly with Iran but also with Saudi Arabia. Today we also look to these nations as being responsible for their own defense and to cooperate in maintaining stability in the area. Thus, U.S. policy in the Persian Gulf area is based on several important and interrelated objectives. Access to and availability of Middle East oil is certainly one of those objectives.

IRAN

Mr. PASSMAN. What important facilities does the United States presently have in Iran?

Admiral PEET. Iran provides the United States with overflight and staging rights for the Military Airlift Command.

TERMINATION OF GRANTS TO GREECE

Mr. PASSMAN. On page 31 you indicate that Greece has terminated its military grant aid program with the United States. We this termination made at the insistence of the United States or was this taken on the initiative of the Greek Government?

Admiral PEET. In early January 1973, the Government of Greece announced its decision to terminate grant aid effective January 1, 1973. Speculation as to the motivating factors which lie behind that decision would not likely be reliable or useful at this time.

Mr. PASSMAN. Is it true then that Greece will only receive military credit sales in fiscal year 1974?

Admiral PEET. Yes, sir. FMS sales credits will finance sales by the military departments as well as by private suppliers.

GRANT AID TO SALES

Mr. PASSMAN. Are there plans in the near future to switch more countries from grant military aid to military credit sales? Please indicate which countries and approximate timetable.

Admiral PEET. Our current forecast is that no more grant military materiel will be provided to ——— as of the end of fiscal year 1975. For fiscal year 1974 we are proposing grant materiel to only 20 countries. We currently consider it unwise to eliminate grant materiel altogether, except for ——— but we certainly plan reductions in the

levels to be provided all countries, consistent with our national interests and the ability of the individual countries to attain defense self-reliance.

HOMEPORTING IN GREECE

Mr. PASSMAN. What progress has been made concerning the homeporting of certain U.S. 6th Fleet units in Greece?

Admiral PEET. Phase I of the program to homeport a carrier task group (CTG) in Athens, which included the homeporting of Commander Task Force 60 (CTF-60), Commander Destroyer Squadron 12 (COMDESRON 12), a six-ship destroyer squadron, and the establishment of a U.S. Navy Fleet Support Office in Athens, Greece, was implemented during the summer and fall of 1972.

Phase II—the final phase—includes the homeporting of an aircraft carrier, the dependent support ship U.S.S. *Sanctuary* (AR 17), and a carrier air wing in Athens. While final authority has not been granted, the former Secretary of Defense, Mr. Laird, conditionally approved the implementation of the Navy proposal for this phase on 31 December 1972. The current target date for implementation is in spring of 1974.

CHANGE OF TRAINING STATUS

Mr. PASSMAN. Your table appearing on page 31 is kind of misleading because you list several countries in fiscal year 1974 that do not have any grant assistance programs listed for them. But is it not true that these countries will receive training programs during fiscal year 1974 whereas in the past these training programs were indicated as part of the military assistance program?

Admiral PEET. The answer to your question is in the affirmative. I would like to point out, however, that neither Greece nor Iran will receive any training during fiscal year 1974, except that they may elect to purchase training under foreign military sales procedures. For the other countries shown on page 31 the amount of grant training proposed for each during fiscal year 1974 is shown on page 6.

NEPAL

Mr. PASSMAN. I note that you plan to program $30,000 in fiscal year 1974 for training for Nepal. Could you tell the committee why you find it necessary to supply such a small amount of training to this country? Does the United States feel that Nepal is needed to maintain U.S. security in that part of the world?

Admiral PEET. Because of Nepal's rather isolated strategic position our very modest security assistance effort is designed to help ———. The $30,000 in training ——— assists Nepal in the use and maintenance of transportation and communications equipment previously supplied. Our interests are served by a stable, independent, developing Nepal that helps to promote security in South Asia.

GREEK PROGRAM

Mr. PASSMAN. According to the Foreign Assistance Act of 1971, the aggregate amount expended for assistance provided under the Foreign Assistance Act of 1961 and sales made to Greece under the Foreign

Military Sales Act cannot exceed such assistance and sales amounts expended in fiscal year 1971. What were these expenditures in fiscal year 1971, and what was expended in fiscal year 1973 and what are your estimates of expenditures in fiscal year 1974?

Admiral PEET. Expenditures for Greece in fiscal year 1971 were $71 million consisting of $67 million in MAP grant aid deliveries and $4 million of expenditures against prior year FMS credits. Based on these deliveries/expenditures, section 620(v) imposes a ceiling of $71 million per fiscal year on (1) grants under the FAA, (2) FMS credits obligated (agreements), and (3) the face amount of FMS guaranties issued.

For fiscal year 1973, the grant aid program is $1.1 million and the FMS credit agreement is $58 million. For fiscal year 1974, there is no proposed MAP grant aid program. The estimate for FMS credits for fiscal year 1974 is $65 million.

JORDAN

Mr. PASSMAN. Could you briefly tell the committee what the internal situation is in Jordan at the present time?

Admiral PEET. As in the past, the Jordanian state continues to rest on the twin pillars of the Hashemite monarchy and the Jordanian Armed Forces. King Hussein, who remains the dominant figure in the regime, is committed to maintaining the internal security and independence of Jordan, and he enjoys the loyal support of the military establishment which is dominated by stalwart Bedouin tribesmen. Since 1970 and 1971 when the armed forces put an end to Jordan-based operations of disruptive groups, security has prevailed throughout the kingdom. As long as the army retains its capabilities, a resurgence of dissident activity is very unlikely and the continued stability of the Jordanian state seems assured.

Mr. PASSMAN. Is there any external threat of invasion of Jordan at the present time?

Admiral PEET. We do not see an immediate threat. In 1970 Jordanian ground and air forces successfully fended off a short-lived invasion by Syrian armored forces in support of internal insurrection in Jordan. Since that time Jordan's military capabilities have improved, partly as a result of U.S. military assistance, and threats from more radical neighbors appear to have diminished. However, a major quantitative increase in the military capabilities of Jordan's neighbors could be an enticement for them to intervene once more. Consequently, we feel that Jordan faces a potential, albeit diminished, external threat which requires that its military needs be kept under continuing review.

Mr. PASSMAN. Could you also tell the committee what the present internal situation is in Lebanon and is there any external threat at the present time for this country?

Admiral PEET. The recent fighting which occurred in Lebanon during May between government and Palestinian guerrilla forces ended in a ceasefire in May. However, tensions persist and future outbreaks of insurgency, perhaps with external support, are distinctly possible during the next few months, ———.

MODERNIZATION

Mr. PASSMAN. You indicate that in 1971 the United States and Jordanian representatives agreed on a plan for military modernization. Does this modernization program have any definite time period to be completed?

Admiral PEET. The program originally envisaged was for a 3 year ——— program to replenish battle losses from the 1970 fighting and to assist the Jordanians in reorganizing their armed forces.

———.

EXCESS EQUIPMENT

Mr. PASSMAN. On page 33 you indicate that the excess defense articles program will increase from $3,500,000 in fiscal year 1973 to $15 million in fiscal year 1974. Could you please tell the committee the need for this very large increase?

Admiral PEET. The $15 million is an estimated level for Jordan. Jordan is capable of participataing in the self-help program, since the Jordanians are able to perform the repair and rehabilitation required on excess equipment. It is anticipated that with this capability Jordan will submit requirements for excess equipment during fiscal year 1974. The granting of these items to Jordan should aid in furnishing some of the equipment required to improve its armed forces.

Mr. PASSMAN. Could you also tell the committee what type of equipment you plan to provide under the excess defense articles program of $15 million in 1974?

Admiral PEET. The type of equipment proposed includes vehicles, trailers, spare parts of all types, and perhaps some artillery and ammunition.

LEADTIME FOR AIRCRAFT

Mr. PASSMAN. I notice on page 33 that you provided ——— F–5E aircraft in fiscal year 1973 but these planes will not be delivered until sometime after fiscal year 1973 is over. Could you please tell the committee just what the time lapse is from when the aircraft are purchased to when they are actually delivered?

Admiral PEET. At the present time approximately ——— months are required from the initial funding for a purchase to the delivery of the F–5E. Fiscal year 1973 funding for the ——— F–5E's for Jordan was committed in January 1973, and delivery of these aircraft is scheduled to begin in ———.

Mr. PASSMAN. Has the United States provided Jordan with F–5E aircraft prior to fiscal year 1973?

Admiral PEET. ———.

COST OF MODERNIZATION

Mr. PASSMAN. What is the total price tag on the modernization program agreed to with Jordan?

Admiral PEET. The original program was for a dollar value of approximately ———. Depending on funding authorizations this program could largely be completed in fiscal year 1974. ———.

THIRD COUNTRY AID

Mr. PASSMAN. What other countries are providing military aid to Jordan and in what amounts?

Admiral PEET. During 1972, security assistance to Jordan was provided by India, ———, Spain, and by the United Kingdom.

TURKEY

Mr. PASSMAN. The next country we will consider in this region is Turkey for which the fiscal year 1974 estimate is $85,501,000, an increase of $27,051,000 above the current fiscal year program. Could you please tell the committee the need for this rather substantial increase?

Admiral PEET. The fiscal year 1973 MAP request for Turkey was $89,440,000. Under fiscal year 1973 CRA, Turkey's share of worldwide MAP is estimated at $58,450,000; this is a reduction of $30,990,000 from the fiscal year 1973 MAP request. Accordingly, the fiscal year 1974 MAP request for Turkey of $85,501,000 reflects what we believe to be the minimum required to provide essential modernization items of equipment and operation and maintenance support for Turkey's armed forces.

Mr. PASSMAN. What U.S. facilities do we presently have located in Turkey?

Admiral PEET. There are five principal U.S. facilities in Turkey: Sinop Common Defense Installation, Sinop; Ankara Air Station, Ankara; Pirinclik Common Defense Installation, Diyarbakir; Incirlik Common Defense Installation, Adana; Karamursel Common Defense Installation, Karamursel. Cigli Air Base, Cigli, is no longer actively used by U.S. forces, but is available for a NATO contingency. Additionally, there are various water supply facilities, housing annexes, radio relay sites, and so forth.

SHIP LOANS

Mr. PASSMAN. ———. Are there any anticipated ship loans to be made to Turkey in fiscal year 1974?

Admiral PEET. ———.

THIRD COUNTRY AID

Mr. PASSMAN. What other countries are providing military aid to Turkey and in what amounts?

Admiral PEET. Other countries providing military aid to Turkey in 1973 are: Canada, Federal Republic of Germany, and Italy. The estimated value of other country military aid to Turkey is: Canada ———, Federal Republic of Germany ———, and Italy ———. Also, the Federal Republic of Germany sold ——— in arms to Turkey for cash.

Mr. PASSMAN. Is any of this third country assistance to Turkey being provided on credit terms and if so, what are the terms of these sales?

Admiral PEET. Although Turkey is starting to buy small amounts of defense articles from some European countries, notably Germany

and England, we do not believe credits were involved in these sales since the amounts of money involved were not large. We do not have the details of these sales.

BALANCE OF PAYMENTS

Mr. PASSMAN. On page 34 you indicate that U.S. military assistance has meant that Turkey's delicate balance of payments has not been unduly weakened by large scale purchases abroad of military equipment and has contributed to a new promising foreign exchange position. Could you please tell the committee what the current balance of payment is in Turkey and also what is their current foreign exchange position? I might also remind you that the United States has a very delicate balance-of-payments problem at this point.

Admiral PEET. Since the devaluation of the lira in 1970, Turkey's balance of payments has turned around with surpluses superseding a long period of deficits. Remittances from Turkish workers abroad amounted to $740 million in 1972. Exports have also risen rapidly, although not as rapidly as imports—mostly raw materials and capital goods required by Turkey's continued industrial growth. Therefore, it has been primarily as a result of worker's remittances that foreign exchange reserves have mounted from very low levels to some $1.6 billion. Thus the recent trend is favorable, but almost completely dependent on a single variable. Turkey's economy is beginning to blossom, but she continues to look to the U.S. Government for help in evolving from a grant aid recipient to a producer and purchaser of defense materials. In this latter respect, credit repayments for Turkish military imports from the United States will be a help to the U.S. balance-of-payments position.

INCREASE IN PROGRAM

Mr. PASSMAN. On page 35 you indicate that the total U.S. security assistance to Turkey amounts to $213 million in fiscal year 1974. Could you please explain why we are providing such a very large increase?

Admiral PEET. The total fiscal year 1973 security assistance, including MAP and FMS credit, request for Turkey was $145.8 million. The total fiscal year 1974 security assistance request for Turkey is $213 million. This reflects an increase of $67.2 million—$55 million of which is required to permit Turkey to continue credit financing for its purchase of two squadrons of F–4E aircraft. The remaining $12.2 increase is reflected primarily in the excess defense article estimate.

AIRCRAFT

Mr. PASSMAN. On page 35 you indicate that in fiscal year 1974 it is proposed to provide Turkey with F–5 aircraft. Does the Turkish air force presently have any F–5 aircraft on hand?

Admiral PEET. Yes, sir, they do.

SERVICE OF EQUIPMENT

Mr. PASSMAN. Could you please tell the committee if the Turkish armed forces has the ability to service all the equipment that we are now providing her and keep this equipment in an operational position?

Admiral PEET. Yes, sir, the Turkish armed forces are capable of servicing all the equipment that we are now providing and keeping the equipment in an operational condition.

GREECE

Mr. PASSMAN. Was the decision made by Greece to terminate the U.S. grant assistance to her country based on the fact that her economy has improved to a point where grant assistance is no longer needed?

Admiral PEET. The decision made by Greece to terminate U.S. grant assistance reflects increased self-sufficiency on the part of this country but may not have been based wholly on that fact.

Mr. PASSMAN. Could you please tell the committee what other countries are providing assistance to Greece and in what amounts?

Admiral PEET. Other countries providing security assistance to Greece in 1973 are: Spain ———, and Federal Republic of Germany and France completing delivery of equipment covered under prior contracts. The total estimated value of this assistance is ———. Specific dollar value by country is unknown.

EXCESS EQUIPMENT

Mr. PASSMAN. You indicate that no excess defense articles will be supplied to Greece in fiscal year 1974. Do you have any estimate at all if excess defense articles will be supplied to Greece at any future date?

Admiral PEET. We have no estimate at this time on excess defense articles which may be supplied to Greece at any future date on a grant basis or to be sold to Greece.

ISRAEL

Mr. PASSMAN. On page 37, in connection with the country of Israel, you state that given the substantial quantities and sophistication of Soviet equipment supplies to Arab nations, the maintenance of this arms balance has required that we supply Israel with more and better arms. Wouldn't this very fact indicate that we are starting an arms race in that area of the world if we keep supplying more and better arms than other countries are being supplied?

Admiral PEET. We recognize the very real danger of an arms race in the Middle East, and we have tried to insure that our own arms deliveries do not contribute unnecessarily to such a race. For this same reason, this administration repeatedly has suggested to the Soviet Union a joint arms embargo in the Middle East, but such advances always have been rejected. Accordingly, we have continued to supply arms to the extent we consider this necessary, either to insure that the arms balance does not tip against Israel or to enable moderate Arab regimes to maintain internal security and protect themselves from external attack. I believe this has been an important element in maintaining a general cease-fire in these last 3 years.

THIRD COUNTRY AID

Mr. PASSMAN. What other countries are providing aid to Israel and in what amounts?

Admiral PEET. During 1972, security assistance to Israel was provided by West Germany ——— and by the United Kingdom ———.

Mr. PASSMAN. We have provided Israel with a great deal of sales credits in the past. Could you tell the committee what effect these credits are going to have on the ability of Israel to pay her debts at some future date?

Admiral PEET. At present levels, Israel should be able to repay its debts to us without difficulty. As I mentioned earlier, Israel is an example of a major security assistance success story, and given its rapidly growing economy, it should be able in the near future to reduce—and perhaps eliminate entirely—its reliance on further arms credit.

Also, as a result both of the continuing cease-fire in the area and a significant increase in domestic production of arms, Israel has been able to stabilize the level of its military expenditure so that increases in GNP can be freed for debt repayment rather than increases in arms expenditures.

LEBANON

Mr. PASSMAN. You state that the U.S. security objectives in Lebanon are both political and military. Could you please tell the committee just what these military and political objectives are?

Admiral PEET. Lebanon, as a historic bridge between the Western and Arab Worlds, is a state with which we have always had special ties. Like Jordan, Lebanon has supported U.S. peacemaking endeavors in the Middle East and has contributed toward maintaining stability in this area. ———. Thus, the continuation of a moderate and pro-Western regime in Beirut is important to our regional objectives. From a military standpoint we are concerned that the Lebanese Armed Forces retain a sufficient capability to maintain internal security, to contain activity by distruptive internal elements, and to deter external interference in the form of infiltration or limited incursions into Lebanese territory.

THIRD COUNTRY AID

Mr. PASSMAN. What third countries are providing assistance to Lebanon and in what amounts?

Admiral PEET. During 1972, security assistance to Lebanon was provided by Czechoslovakia, ———; Belgium, ———; France, ——— and Yugoslavia, ———. In addition, Lebanon contracted for helicopters valued at ——— from Italy.

SAUDI ARABIA

Mr. PASSMAN. On page 39 in connection with the security assistance program for Saudi Arabia you state that the United States has important security related interests in Saudi Arabia. Could you tell the committee just what these important security related interests are?

Admiral PEET. Yes, essentially they include our interest in the continued availability of Saudi and Persian Gulf oil to the United States

and to our allies in Europe and in Asia, in Saudi Arabia's continued and increasingly important role as a moderate regional power with a stake in regional stability and tranquility, and an occasional overflight privileges.

THIRD COUNTRY AID

Mr. PASSMAN. What third countries are providing assistance to Saudi Arabia and in what amounts?

Admiral PEET. During 1972, security assistance to Saudi Arabia was provided by France, ——— and the United Kingdom, ———. Another ——— worth of military equipment is to be provided to Saudi Arabia by France, Italy, and the United Kingdom.

Mr. PASSMAN. Is Saudi Arabia considered pro-United States?

Admiral PEET. I don't know that I would characterize the relationship in precisely those terms. I think it is fair to say that Saudi Arabia and the United States maintain a close and basically friendly relationship. However, the Saudi Arabian Government is opposed to U.S. policy as regards the Arab-Israel dispute. Nevertheless, our two countries also have several important interests in common. For example, aside from important commercial relationships, Saudi Arabia looks to the United States as the major source for equipment and assistance in modernizing and developing its armed forces.

Mr. PASSMAN. The committee stands adjourned.

TUESDAY, JUNE 12, 1973.

Mr. PASSMAN. The committee will come to order.

EUROPE

We will discuss the estimates for the Europe region today. Your 1973 program is $10,271,000 and your 1974 estimate is $3,349,000 which is a reduction of $6,922,000 below your 1973 program, is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Would you supply for the record the percentage and amount of the fiscal 1974 budget request which will be allocated to operation and investment?

Admiral PEET. Yes, sir.

[The information follows:]

[Dollar amounts in thousands]

	Total program		Operation[1]		Investment[2]	
	Amount	Percent	Amount	Percent	Amount	Percent
East Asia and Pacific:						
Cambodia	$167,194	100	$131,845	79	$35,349	21
Indonesia	20,826	100	8,427	40	12,399	60
Korea	238,789	100	47,563	20	191,226	80
Philippines	19,269	100	4,361	23	14,908	77
Thailand	55,762	100	27,288	49	28,474	51
Regional costs	28,300	100	----	----	28,300	100
Regional total	530,140	100	219,474	41	310,656	59
Near East and South Asia:						
Jordan	35,632	100	2,100	6	33,532	94
Turkey	85,501	100	18,364	21	67,137	79
Regional total	121,133	100	20,464	17	100,669	83
Europe:						
Portugal	323	100	262	81	61	19
Spain	3,026	100	----	----	3,026	100
Regional total	3,349	100	262	8	3,087	92
Africa:						
Ethiopia	10,454	100	4,655	45	5,799	55
Tunisia	2,476	100	488	20	1,988	80
Regional total	12,930	100	5,143	40	7,787	60
Latin America:						
Bolivia	3,996	100	1,033	26	2,963	74
Dominican Republic	796	100	279	35	517	65
El Salvador	400	100	50	12	350	88
Guatemala	1,080	100	9	1	1,071	99
Honduras	400	100	60	15	340	85
Nicaragua	1,023	100	194	19	829	81
Panama	230	100	137	60	93	40
Paraguay	550	100	167	30	383	70
Uruguay	1,000	100	763	76	237	24
Regional program	525	100	525	100	----	----
Regional total	10,000	100	3,217	32	6,783	68
General costs	93,948	100	34,493	37	59,455	63
Worldwide total (TOA)	771,500	100	283,063	37	488,437	63

[1] Operating costs represent the value of equipment, supplies, and services required to operate and maintain the capability of country assets, low unit value secondary items and all expendables—except war reserve ammunition, initial stockage level of spare parts and secondary items programed as a part of a major item or system investment. Also included in operating costs are the charges for supply operations (shown as general costs not distributed by country) which represent the costs of packing, crating, handling, and transportation incurred in the issue and transfer of material in the operating and maintenance category as well as logistics managment expenses.

[2] Investment costs represent the value of equipment, supplies, and services which increase the force capability including initial equipment, war reserves, replacement of equipment by improved types, the initial stockage of spare parts programed concurrent with related major items, all construction and the cost of supply operations (shown as general costs, not distributed by country) required for investment materiel and services.

Mr. PASSMAN. On page 41 you indicate that grain aid is one consideration on the continuing availability to the United States of bases and facilities in the countries. Could you tell the committee what bases the United States has in Spain ——— I would assume that that statement applies to these two countries, does it not?

Admiral PEET. Yes, sir; it does.

Mr. PASSMAN. Would you state for the record now, or insert it, the number of bases that we have in Spain, ———.

Admiral PEET. Yes, sir.

Mr. PASSMAN You can place that in the record.

Admiral PEET. Yes.

[The information follows:]

U.S. BASING FACILITIES IN SPAIN AND PORTUGAL

In Spain, we have major facilities at Spain's Rota Naval Base and at three Spanish air bases in support of our defense comitments in the European Central Region and along NATO's Southern Flank. One of these, Moron Air Base near Seville, is maintained in standby status for use only during periods of crisis or war. We also have minor communications and support facilities at several other locations in Spain.

In Portugal, as you indicated, US forces are stationed at Lajes field in the Azores. They perform antisubmarine warfare and ocean surveillance missions, support transatlantic staging and deployments, and maintain and operate important communications equipment. We have no other basing facilities in Portugal although a few US personnel are assigned to NATO IBERLANT Headquarters and to the US Military Assistance and Advisory Group and Defense Attache Office in the Lisbon area.

MORAL INVESTMENT

Mr. PASSMAN. It is my understanding—I hope I have the understanding—that both Spain ——— have as much investment in this military program as we do, do they not?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Don't they realize if Communism is not good for this country, or any other philosophy that destroys freedom, then it would likewise not be good for Spain ———.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Why wouldn't they be willing to receive us with open arms and say you are not only doing this for your own security but for our security, and really pay us to keep these bases in their country, ———. Had you looked at it from that standpoint?

Admiral PEET. We have four bases in Spain.

Mr. PASSMAN. It gives Spain security, does it not?

Admiral PEET. Yes, I feel it does, although our basing agreement with Spain does not embody a security commitment and we are in no way obligated to defend Spain or spanish territory.

Mr. PASSMAN. They are supposed to be as anti-Communist as we are. Let us meet it headon and that is, the Russian military power is what we have to dread, isn't that so?

Admiral PEET. Yes, sir.

Mr. PASSMAN. It should be as much a dread to them as it is to us. It seems this should be reversed. Instead of us paying them to have bases

in their country, they ought to pay us to have bases there. Wouldn't that make sense if you were trying to bargin that thing out?

Admiral PEET. Yes, on that basis, it would.

Mr. PASSMAN. Thank you very much. We will take a brief recess.

[Short recess.]

AID TO PORTUGAL

Mr. PASSMAN. The committee will be in order.

Admiral, on page 14, you indicate that it should be noted that the U.S. offer in the last negotiation with Portugal was limited to economic assistance. Would you tell the committee when the military assistance program would be phased out in Portugal and we would only be providing economic assistance?

Mr. TARR. We have not set a definite date. My understanding was that this was primarily a ——— I would think it depends on that.

Mr. PASSMAN. The language confuses me because if I read history correctly, at one time Portugal was considered the wealthiest nation in Europe and now Portugal is considered a poor nation in Europe and yet they steadfastly refused to accept our aid. They said our people are accustomed to their standard of living and if you come in you will spoil them as you have all other nations and even though they were a poor country in Europe they would not accept a dime. They said, "Stay out with your aid program" and they would not accept it. The people seemed to be poor but very happy. The only program we had was the ———. It is hard for me to associate the philosophy of the late leader of that country with the fact that we are talking about economic aid.

Admiral PEET. We in Defense consider it purely a ———.

Mr. PASSMAN. What you are actually talking about is not economic grant aid ———.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Rather than giving military equipment you are giving them aid either in dollars or commodities?

Admiral PEET. Yes.

———.

Mr. PASSMAN. This was a clear indication of how unnecessary this aid program was in so many places. One of the poorer countries in Europe said they did not want aid and they would not take it.

Did I state that correctly as you understood it, Mr. Secretary?

I got a lot of nods, but you don't register nods.

I did state it correctly?

Mr. TARR. I think so.

Mr. PASSMAN. Thank you very much.

Admiral PEET. Yes, sir.

AID VERSUS LOANS

Mr. PASSMAN. You also indicate that most of the European countries have developed and now produce their own military equipment. In fact, you go on to point out, Admiral, that much of their equipment is competing with U.S. foreign military sales. I assume by that, that then it is true that the U.S. aid has helped these countries get back on their feet and reach a point where they are now very competitive with military production in our country, is that not correct?

Admiral PEET. Yes, sir, it is. That is an accurate statement.

Mr. PASSMAN. I have stated time and time again, and it does not hurt to have it in the record one more time, I go right back to the European countries and our so-called Marshall plan under the Truman administration. I think we gave the European countries a total of some $32 billion in aid.

I guess we would say that hindsight is better than foresight. Had we provided this $32 billion on a loan basis in conventional terms, they would now be paying these loans back.

Isn't that the way you figure it?

Admiral PEET. Yes.

Mr. PASSMAN. So they are waxing fat with wealth, making Mickey Mouse currency out of our money. If there was a clear cut example of how necessary and desirous it would be to switch this program over to a loan program rather than a grant program, all we have to do is look at Europe. We say these nations are developing nations that we are helping. I would assume by that you people who are asking for aid believe that they would sooner or later develop so that they could use their foreign exchange in sufficient amounts to repay these loans. Isn't that correct?

Mr. TARR. Yes.

Mr. PASSMAN. I am doing everything in my power to get through to the Members of Congress that we better get it on a business basis, and some 20 years from now it would be mighty nice to have some of this money coming back in.

U.S. COMPETITORS IN MILITARY SALES

Could you tell the committee, Admiral, what countries now produce their own military equipment and are making sales to third countries in competition with the U.S. sales?

Admiral PEET. Yes, sir; we can provide an accurate list for the record. Primarily, they are England, France, Italy, and Sweden.

Mr. PASSMAN. Will you put it in the record?

Admiral PEET. Yes, sir.

[The information follows:]

LIST OF ARMS PRODUCING COUNTRIES

Countries now producing their own military equipment and making sales to third countries are: England, France, Germany, Canada, Italy, Sweden, Netherlands, Belgium, Switzerland, Israel, Spain, Russia, and Czechoslovakia.

PREFERENCE FOR U.S. EQUIPMENT

Mr. PASSMAN. You indicate that many European countries still prefer to purchase United States equipment. Could you tell the committee why these countries prefer United States equipment over equipment produced in other European countries?

Admiral PEET. Most of the European countries are in the NATO alliance. These countries for the most part are developed countries, and compared to the less developed countries of the world, have relatively large defense budgets. For the most part, the European countries can produce most of their own military requirements, however, when they decide to produce defense articles of a sophisticated nature

to modernize their forces, they first look to the United States. The reasons for this are as follows:

(1) We develop and produce for our own needs the most sophisticated and effective weapons in the world.

(2) The United States production lines run over a long period of time and the countries can procure from us at relatively economic prices.

(3) After World War II the United States supplied a large amount of military hardware to European countries initially under the grant aid program and subsequently through the foreign military sales channel. The European countries have great experience with United States military hardware and know full well the United States has the best support system in the world. Our record of supporting a sophisticated system in terms of spare parts, training and supporting tests and repair equipment associated with end items is excellent.

For the reasons given above and the fact that a European country can come to the Department of Defense and ask us to buy defense equipment for them on the same basis that we buy from United States industry to meet our own needs. European countries still prefer to purchase United States equipment rather than from third countries.

AUSTRIA AND FINLAND TRAINING PROGRAMS

Mr. PASSMAN. I note you plan to provide Austria with a $30,000 training program in fiscal year 1974 and Finland with a training program of $20,000 in fiscal year 1974. Could you please tell the committee why the United States feels that it must provide grant aid for training for these two developed countries?

Admiral PEET. The small international military education and training programs provided for Finnish and Austrian military personnel strengthen the independence of these countries which border the U.S.S.R. and the Warsaw Pact nations, respectively.

Mr. PASSMAN. Since these two training requests are such a small sum, why couldn't these two countries pick up the cost for this military training?

Admiral PEET. They probably could. However, we believe it is in the U.S. interest to continue these small training programs which provide a modest western influence to the military personnel of these two neutralist countries on the edge of the Iron Curtain.

PORTUGAL

Mr. PASSMAN. The first country in this region is Portugal, for which the fiscal year 1974 estimate is $323,000. Is it not true that this $323,000 does not include $477,000 that is going to be provided to Portugal for training?

Admiral PEET. Yes, sir, it is true.

Mr. PASSMAN. Could you please tell the committee what third country assistance is being provided to Portugal and in what amounts?

Admiral PEET. Third country assistance to Portugal consists of equipment sold by Spain ——— and by France ——— together with minor items provided over a 5-year period. It is estimated that procurement of these items will cost the Portuguese Government about ——— in fiscal year 1974.

Mr. PASSMAN. Would you please tell the committee what equipment will be provided with the $323,000 requested in fiscal year 1974?

Admiral PEET. The $323,000 is to provide for Navy training ammunition to support NATO exercises; communications equipment and spares primarily to assist the Portuguese Navy in attaining minimum standards revised by NATO STANAGS; and spares for aircraft, vehicles and weapons to maintain MAP equipment in operating condition. All of this equipment is oriented toward Portugal's NATO-related mission in ASW and air defense.

SPAIN

Mr. PASSMAN. The next country in this region is Spain, for which the fiscal year 1974 estimate is $3,026,000, a decrease of $6,174,000 below the fiscal year 1973 program. Could you please tell the committee how you were able to reduce this program so drastically under the current year's program?

Admiral PEET. U.S. military assistance in fiscal year 1974 is being provided to Spain as part of the quid pro quo called for under the 1970 agreement of friendship and cooperation. This agreement, which provided for a total of $26 million in U.S. military assistance over a 5-year period, enables us to utilize important military bases and facilities in Spain until September 1975, at which time a 5-year renewal of the agreement may be negotiated. Past and current U.S. military assistance on the $26 million is as follows:

MAP

Fiscal year:	*Millions*
1972 (actual)	$11.2
1973 (actual)	9.2
1974 (proposed)	3.4
Total	23.8

The balance ——— to be provided in fiscal year 1975 and 1976, will terminate the U.S. commitment under the 1970 agreement of friendship and cooperation.

Mr. PASSMAN. On page 45 you indicate that the 1970 agreement of friendship and cooperation enables us to utilize important military bases and facilities in Spain until 1975. Do you anticipate at this time that you will have trouble in renewing such an agreement in 1975?

Admiral PEET. I do not believe that negotiations for renewal of United States-Spanish basing agreement are yet underway; however, I personally feel that there are formidable economic and political problems to be faced in gaining extension/renewal of our rights to use facilities on Spanish bases. Successive administrations have reaffirmed the inseparable link between U.S. and European security and have vowed to make force reductions/withdrawals only in the context of reciprocal and balanced actions by our Warsaw Pact adversaries. I would hope that renewal of the Spanish basing agreement would be viewed in the context of overall U.S./European security by all parties concerned.

Mr. PASSMAN. You indicate that the grant aid program will contribute to the objective of closer Spanish association with western

security interest. Would you please explain this statement to the committee?

Admiral PEET. Yes sir. You may recall that for many years, the United States has been promoting the proposition of Spanish membership in NATO. It is our belief, that security considerations have considerable influence on prospects for attainment of this objective. Accordingly, as one of a number of measures to foster a Spain-NATO link, we try to provide NATO-compatible military equipment and training in return for base rights granted by Spain. In this way, we hope to improve Spain's capability to contribute to western defense and, at the same time, to promote increased NATO planning and cooperation with Spanish forces which are increasingly NATO compatible in terms of doctrine and equipment. Ultimately, we hope our Allies will support full NATO membership for Spain. This would bolster overall U.S./European mutual defense capabilities and should permit some reduction in U.S. defense expenditures in Europe.

THIRD COUNTRY AID

Mr. PASSMAN. Would you please tell the committee what third country assistance is being provided to Spain and in what amounts?

Admiral PEET. France [deleted] being constructed in Spain and [deleted].

USE OF FISCAL YEAR 1974 REQUEST

Mr. PASSMAN. Would you please tell the committee what the $3,026,000 fiscal year 1974 request will be used for?

Admiral PEET. The $3,026,000 fiscal year 1974 request will be used primarily to pay for aircraft spares, vehicles, weapons, ammunition and communications equipment.

SHIP LOANS

Mr. PASSMAN. Will any ship loans be made to Spain in fiscal year 1974?

Admiral PEET. Yes, sir. It is anticipated that the USG will offer the [deleted] to Spain in fiscal year 1974.

AFRICA

Mr. PASSMAN. Now, we move along to Africa. The 1973 program is $11,921,000. You are asking for an increase of $1,009,000 for fiscal 1974, is that correct?

Admiral PEET. Yes, an increase of $1 million.

Mr. PASSMAN. Don't drop off that little $9,000. Some of us have not saved that much.

Admiral PEET. The principal increase is in Ethiopia.

Mr. PASSMAN. Please provide for the record a table showing the percentage and amount of funds to be allocated in fiscal 1974 to this region for operation and investment.

Admiral PEET. Yes, sir.

[The information follows:]

	Total program		Operations		Investment	
	Amount	Percent	Amount	Percent	Amount	Percent
Africa:						
Ethiopia	$10,454	100	$4,655	45	$5,799	55
Tunisia	2,476	100	488	20	1,988	80
Regional total	12,930	100	5,143	40	7,787	60

OPERATION AND INVESTMENT

Mr. PASSMAN. Would you please at this time state for the record what you mean by the term "operation" and the term "investment"?

Admiral PEET. Operating costs represent the value of the equipment supplies and services required to operate and maintain the capability of country assets.

Investment costs represent the value of equipment supplies and services which increase the force capability including initial equipment and so on.

Mr. PASSMAN. You will break that down for the record in two parts?

Admiral PEET. Yes, sir.

[The information follows:]

OPERATIONS

Operating costs represent the value of equipment, supplies and services required to operate and maintain the capability of country assets, low unit value secondary items and all expendables—except war reserve ammunition, initial stockage level of spare parts and secondary items programmed as a part of a major item or system investment. Also included in operating costs are the charges for supply operations (shown as general costs, not distributed by country) which represent the costs of packing, crating, handling and transportation incurred in the issue and transfer of materiel in the operating and maintenance category as well as logistics management expenses.

INVESTMENT

Investment costs represent the value of equipment, supplies and services which increase the force capability including initial equipment, war reserves, replacement of equipment by improved types, the initial stockage of spare parts programmed concurrent with related major items, all construction and the cost of supply operations (shown as general costs, not distributed by country) required for investment materiel and services.

PROGRAM FOR MOROCCO

Mr. PASSMAN. You indicate that some of the aid provided to the African region is to be used to meet limited objectives to promote ———.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Admiral, if I recall the record correctly, one of the most expensive and modern bases we had anywhere in the world was in Morocco, is that correct?

Admiral PEET. Yes, it was a SAC base.

Mr. PASSMAN. Also, if I recall the record correctly, they told us to get out and we got out.

Admiral PEET. Yes, sir. We withdrew from the SAC bases in 1963.

Mr. PASSMAN. Giving up that investment.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Then why are we back in Morocco?

Admiral PEET. At the time of our withdrawal from the SAC bases ———.

Mr. PASSMAN. Again is Morocco considered a free nation of the world, or a nation seeking to be free?

Mr. TARR. I think so.

Mr. PASSMAN. Then why wouldn't they welcome us with open arms and maybe make a little contribution to us for the protection we would give them?

Mr. TARR. Mr. Chairman, our program in Morocco is primarily a sales program. The only part that we have on a grant basis is our training.

Mr. PASSMAN. Morocco is where we had one of the most expensive and modern bases we had anywhere in the world. We used it and 10 years ago they said get out. I remember that so very well.

Admiral PEET. We lost a number of bases in that area.

Mr. PASSMAN. You are very fair about it. We did not negotiate to get out. We were told to get out and we got out, that is all. I happen to know that as Americans were moving out the Russians were moving in. They had some of their technicians arriving on the base in Morocco before we actually had gotten all our equipment out.

Do you remember that, Mr. Secretary?

Mr. TARR. No, I do not.

Mr. PASSMAN. Have a look at the record, you will find it just as I stated. We have been bringing it up to date from time to time. What kind of grant aid assistance do you have for Morocco?

Mr. TARR. For training only.

Mr. PASSMAN. What is the cost of it?

Mr. TARR. We show a million dollars proposed.

Mr. PASSMAN. Where do you train the Moroccans? Are they trained in this country?

Admiral PEET. Yes, they are scheduled for training in this country.

Mr. TARR. Primarily.

Mr. PASSMAN. For what purposes are they trained militarily?

Mr. TARR. I would think a lot of this is professional and pilot training.

Admiral PEET. Yes, sir; Professional and pilot training.

Mr. PASSMAN. How about sales to Morocco? Do we have a sales program in Morocco?

Admiral PEET. Yes, sir.

We propose about $12 million in credit in 1974.

Mr. PASSMAN. Are they also buying Russian equipment?

Mr. TARR. They are buying equipment from nations other than ours.

Mr. PASSMAN. Would you put something in the record on where they are buying it?

Admiral PEET. Yes, sir.

[The information follows:]

SOURCES OF MOROCCAN MILITARY EQUIPMENT

The principal countries from which Morocco has received military equipment are the U.S.S.R., Czechoslovakia, and France. Morocco has over the years also received a small amount of military equipment from Belgium, West Germany and Israel.

ETHIOPIA: U.S. FACILITIES AND INTERNAL SECURITY

Mr. PASSMAN. I think we should have you state for the record, if you would be a little more specific as to the type of facilities you have for Ethiopia.

Admiral PEET. Yes, sir.

[The information follows:]

U.S. FACILITY, ETHIOPIA

The U.S. military facility in Ethiopia is Kagnew Station at Asmara, which is a communications station, serving primarily as a relay link for our worldwide defense communications system, ship-to-shore communications for US Naval units transiting the western Indian Ocean, and an earth terminal for the defense satellite communications system. The State Department also utilizes Kagnew Station for its diplomatic communications from Ehiopia as well as for communications links in East Africa.

Mr. PASSMAN. Admiral, you say that some of the countries are trying to improve their internal security capabilities. Could you tell the committee what countries in Africa have an internal security problem and just what the problem is?

Admiral PEET. Ethiopia has a quite serious internal security problem involving its neighbor, Somalia. Haile Selassie comes here quite frequently to discuss the subject. In Morocco, the King has his problems. He was in a plane that was shot at 10 months ago.

MAINTAINING AFRICAN BALANCE

Mr. PASSMAN. Admiral, you say that the military sales and assistance programs try to reflect a policy of discouraging arms races. Could you please tell the committee if you have been successful in discouraging arms races between African countries?

Admiral PEET. In every action we take in Africa, we try to limit arms and maintain a military balance.

Mr. PASSMAN. You try to. Are you meeting with success? That is what we want to know.

Admiral PEET. I believe that question would be more appropriately addressed to the State Department.

Mr. TARR. We have two problem areas. One is in Somalia, where there has been a buildup, but we are hopeful that it won't get out of hand. The other one is in Libya, where we know about what they have done with their neighbors to the east, the Egyptians. But they have also been a difficult country for some of the Arab nations to the west as well.

ENCOURAGING CONTRIBUTION OF METROPOLES

Mr. PASSMAN. You state on page 47 that where possible you have encouraged the former metropoles to provide the security resources needed by the new Africa states. Have you been successful in this effort?

Admiral PEET. Not as successful as we would like to be. Germany has made some contributions, and Italy some and France as well, but we have not been overwhelmingly successful.

Mr. PASSMAN. Then you can tell the committee who these former metropoles are.

Admiral PEET. Yes, we can.

Mr. PASSMAN. Will you place it in the record?

Admiral PEET. Yes, sir.

[The information follows:]

FORMER METROPOLES

The metropoles that continue to provide military assistance to their former colonies are the United Kingdom, France, Belgium, Germany, and Italy.

REASON FOR PROGRAM

Mr. PASSMAN. You indicate that small token programs have been developed to promote limited U.S. foreign policy objectives. Could you please tell the committee what these limited foreign policy objectives are?

Admiral PEET. These small programs are designed to demonstrate U.S. interest in these countries and help promote favorable relations. While many African countries continue to rely primarily on their former metropole for defense support, some seek to avoid total dependence on these former ties and look to us and to other countries to supplement their customary sources of military assistance.

LIBERIA

Mr. PASSMAN. On page 47 you state that it should be noted that material assistance for Liberia has been phased out. Is it not true that Liberia is scheduled to receive $100,000 in training for fiscal year 1974?

Admiral PEET. Yes, that is true.

PERSONNEL BEING SENT TO UNITED STATES

Mr. PASSMAN. What countries will send military personnel to the United States?

Admiral PEET. At this time, consideration is being given to the Ivory Coast, Upper Volta, and Niger.

Mr. PASSMAN. How much will these visits cost and what will be included in the cost?

Admiral PEET. The cost of each visit will be approximately $8,000. The cost includes funds for transportation and living allowances for three participants, plus the cost of an escort officer.

Mr. PASSMAN. Will any training be conducted on these visits?

Admiral PEET. No formal training, per se, is conducted on these visits; however, the visit is one of the most effective methods of training in the U.S. command and control and management systems.

Mr. PASSMAN. Does the United States pay for their air transportation to the United States?

Admiral PEET. The United States does pay for their air transportation to the United States and return.

ETHIOPIA

Mr. PASSMAN. The first country in this region is Ethiopia, for which the fiscal year 1974 estimate is $10,454,000, an increase of $1,954,000 above the current fiscal year program. What type of equipment will be provided in the proposed fiscal year 1974 program?

Admiral PEET. ——— aircraft, ——— helicopters, various vehicles, ammunition, spares and secondary items of equipment, and the overhaul of aircraft engines.

Mr. PASSMAN. You indicate that grant material assistance is directed primarily toward satisfying operation and maintenance requirements of the Ethiopian Armed Forces. Does this mean that very little new equipment is usually provided to this country?

Admiral PEET. Yes, this is true. Eight to nine million dollars is needed for operating and maintenance requirements of the Ethiopian military forces, which includes minimum replacement for older equipment being attrited. With reduced appropriations in past years, this was about the amount we were able to finally allocate Ethiopia.

FORCE DATA

Mr. PASSMAN. I note in the force data table that you indicate Ethiopia presently has ———. Could you please tell the committee why the Ethiopian Armed Forces have so many units in excess of what the objective is?

Admiral PEET. That is a typographical error. ———.

THIRD COUNTRY AID

Mr. PASSMAN. Could you please tell the committee what third countries are providing assistance to Ethiopia and in what amounts?

Admiral PEET. Yes. It is estimated that during the fiscal years 1972–74 period, the Federal Republic of Germany will deliver ——— equipment. In fiscal year 1972, the Netherlands sold ——— to the Ethiopians, ———.

SHIP REQUEST

Mr. PASSMAN. You indicate that $228,000 is proposed for fiscal year 1974 for ships (including spares). Would you please tell the committee what this amount will be used for?

Admiral PEET. This amount is for operating and maintenance requirements of the Ethiopian Navy ship inventory. Primarily spare parts.

MOROCCO

Mr. PASSMAN. On page 52 in connection with the security assistance program for Morocco you indicate that this program will promote a sense of security against external aggression. Would you please tell the committee what sort of external aggression exists at the present time in Morocco?

Admiral PEET. [———].

Mr. PASSMAN. You indicate that the United States has important facilities in Morocco and you mention Kenitra, Bouknadel, and Sidi

Yahia. Would you please tell the committee what sort of facilities we have at these three locations?

Admiral PEET. The U.S. naval communications complex in Morocco includes facilities at (i) the Royal Moroccan Air Force Base at Kenitra where most of the support facilities are located, (ii) a communications system at Sidi Yahia, and (iii) a transmitter station at Bouknadel. The Moroccan facilities are part of the Navy's worldwide communications system, [———].

THIRD COUNTRY AID

Mr. PASSMAN. Would you please tell the committee what third countries are contributing funds to Morocco and in what amounts?

Admiral PEET. No funds have been provided for military purposes, to our knowledge. However, France and Belgium made military sales to Morocco in fiscal year 1972 and France is providing for credit sales in fiscal year 1974.

TUNISIA

Mr. PASSMAN. Why is it beneficial to the United States to help Tunisia to help improve her defense capabilities?

Admiral PEET. [———]. Tunisia is important to the United States because of its strategic location on the southern flank of NATO, its willingness to facilitate periodic visits by 6th Fleet units and because of its moderating posture on Middle East issues.

THIRD COUNTRY AID

Mr. PASSMAN. Could you please tell the committee what other countries are providing assistance to Tunisia and in what amounts?

Admiral PEET. France provided [———] equipment in fiscal year 1972 [———].

TYPE OF EQUIPMENT

Mr. PASSMAN. Would you please tell the committee what type of equipment is proposed to be provided to Tunisia in fiscal year 1974?

Admiral PEET. [———] vehicles, ammunition, communications equipment, construction equipment, and spare parts.

NEED FOR INCREASE

Mr. PASSMAN. Would you please also tell the committee the need for this rather substantial increase in fiscal year 1974?

Admiral PEET. Our proposed fiscal year 1973 program for Tunisia had to be reduced because of the limited funds available under the fiscal year 1973 continuing resolution authority. The proposed increase in the fiscal year 1974 program is partially to compensate for the fiscal year 1973 reduction.

ZAIRE

Mr. PASSMAN. On page 54 in connection with the security assistance program for Zaire, why does the United States feel that the maintenance of internal security of this country is important to the interest of the United States?

Admiral PEET. Because of its size, location, and potential wealth and importance, Zaire (formerly the Belgian Congo) is a key country in Africa [———]. Our assistance has helped support Zairian forces in their successful efforts at putting down past rebellions and promoting the stability of the country. Zaire has a growing industrial and consumer market of interest to U.S. exporters. Private U.S. investment there is expected to increase sharply over the next few years.

THIRD COUNTRY AID

Mr. PASSMAN. Could you please tell the committee what other countries are providing assistance to Zaire and in what amounts.

Admiral PEET. Belgium sold [———] equipment during fiscal year 1972, and United Kingdom provided [———] equipment in fiscal year 1972, France's deliveries totaled [———] in fiscal year 1972 [———] and it is estimated that deliveries from France in fiscal year 1973–74 period will total [———].

TRAINING

Mr. PASSMAN. You indicate the $400,000 will be provided for training to Zaire in fiscal year 1974. Could you please tell the committee what type of training this will finance?

Admiral PEET. The $400,000 will provide training in communications, electronics, maintenance, operations, as well as general professional training such as command and general staff courses, and limited orientation visits.

LATIN AMERICA

Mr. PASSMAN. On Latin America, your 1974 estimate is $10 million, is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Your 1973 program was $16,400,000, is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. If you just made a record at this point and stopped you would show a reduction of $6,400,000, but is it not true that the fiscal 1974 total does not include $10,665,000 in training costs that were included in the fiscal 1973 program?

Admiral PEET. That is true, sir.

Mr. PASSMAN. So the facts are, you are asking for $20,665,000 against a 1973 program of $16,400,000?

Admiral PEET. That is correct.

Mr. PASSMAN. So it is a very substantial increase rather than a decrease, is that correct?

Admiral PEET. Yes. It is an increase of over $4 million.

MULTILATERAL AND BILATERAL AID TO LATIN AMERICA

Mr. PASSMAN. Am I correct when I say that all of the recipient nations of Latin America where we have a military program are likewise recipients of our bilateral program as well as the multilateral program; isn't that correct?

Admiral PEET. I do not know.

Mr. PASSMAN. Let me ask the distinguished Secretary. Am I stating it correctly?

Mr. TARR. Yes, sir.

Mr. LONG. Venezuela receives mostly multilateral aid.

Mr. PASSMAN. Which means these countries take their resources to build up their military, placing their orders in many instances with foreign competition, while we provide the money for their economic aid; is that correct, Mr. Secretary?

Mr. TARR. In many cases.

Mr. PASSMAN. Of course, this is very strange and it is something that we should have an understanding about sooner or later. If we are going to furnish substantial bilateral aid whether it is on a concessionary loan basis or direct grant aid, then there should be some stipulation that if they just insist on buying military equipment, at least they should buy it from us. I think we have made the record in prior years that they are going to have military equipment, our wishes notwithstnding. Is that a statement of fact?

Mr. TARR. I think that is right.

Mr. LONG. It is not one that I would accept.

3D COUNTRY SUPPLIERS TO LATIN AMERICA

Mr. PASSMAN. It is not a question of whether I like it or dislike it. I am trying to make the record for what it is. They have made it abundantly clear that they are going to buy military equipment and they are buying military equipment from foreign nations. Could you tell the committee at this time what countries they are buying military equipment from?

Admiral PEET. Yes, sir. They are buying from France, England, Sweden, and Italy, among others. We have a list we can provide for the record.

Mr. PASSMAN. Could you tell us in detailed amounts for the last year the purchases from foreign countries?

Admiral PEET. Yes, sir. To give you some idea, we are No. 3 in total dollar value of sales.

Mr. PASSMAN. I want to know what they are buying from the other foreign nations.

Admiral PEET. We can provide that.

Mr. PASSMAN. Could you give us some information now because we have to make a few recordings on this mentally as we go along.

Admiral PEET. French sales are in the neighborhood of ——— million.

Mr. PASSMAN. ——— million?

Admiral PEET. Yes, sir.

Mr. LONG. A year?

Admiral PEET. Yes, a year.

For England, total sales to Latin America amounted to ——— million for the period from '68 to '72.

[The information was provided to the committee.]

Mr. LONG. This is too fast.

Mr. PASSMAN. Let me make my point, Doctor.

Mr. LONG. That was not one year.

Admiral PEET. No, sir.

BILATERAL AID AND MILITARY PURCHASES

Mr. PASSMAN. These people are actually buying military equipment in the aggregate at just about the same level of our bilateral aid annually. I think our bilateral aid is something like $1.2 billion.

Admiral PEET. Yes, it is.

I will have to get the third country sales for you on an annual basis. I have the figure for 1968 to 1972. The total in that period is about $1.35 billion.

Mr. PASSMAN. How many years?

Admiral PEET. From 1968 to 1972. That is total third country sales.

Mr. PASSMAN. Four years.

Admiral PEET. Yes, sir.

Mr. PASSMAN. What is our economical bilateral aid to them during that period? About $4 billion? So they are spending about 28 percent of the amount on military items. How much did they buy from the United States during that same period?

Admiral PEET. $334 million, from 1968 to 1972.

Mr. PASSMAN. Was that on grant aid?

Admiral PEET. No, it was actual purchases or sales.

Mr. PASSMAN. How about the grant aid part? This will make sense if you just bear with me, gentlemen.

Admiral PEET. About $75 million.

Mr. PASSMAN. They bought $75 million from us.

Admiral PEET. It was grant military assistance.

Mr. PASSMAN. How much did they purchase from us?

Admiral PEET. The purchases amounted to $334 million.

Mr. PASSMAN. Which means they are purchasing about four times as much from foreign countries as they are purchasing from us. Yet we are feeding the kitty from a bilateral aid approach of about $1,200 million a year.

Have I stated that accurately?

Admiral PEET. Yes, sir, as I understand it.

Mr. SHRIVER. If you will yield, weren't there some restrictions on their purchases from us?

Admiral PEET. Very much so.

Mr. SHRIVER. That was in the Foreign Assistance Act or action of this committee?

Admiral PEET. Yes, sir.

Mr. LONG. Was that during the period of the Long-Conte amendments?

Mr. SHRIVER. Yes, it would be.

Admiral PEET. Yes.

Mr. PASSMAN. It follows, nevertheless, and notwithstanding our wishes they still purchased four times as much equipment from foreign nations as they did from the United States.

Admiral PEET. Yes, sir.

UNITED STATES IS THIRD IN LATIN AMERICAN SALES

Mr. ROYBAL. I wanted to know how many countries were selling more to Latin America than we were.

Admiral PEET. The United Kingdom and France.

Mr. ROYBAL. Only two countries.

Admiral PEET. Yes, sir.

Mr. ROYBAL. Then we are No. 3.

Admiral PEET. Yes, we are No. 3.

Mr. ROYBAL. Are we No. 3 as of last year, or is this over a period of several years?

Admiral PEET. Our position is based on data from fiscal year 1968 through fiscal year 1972.

Mr. PASSMAN. That does not change the grant total, that through 1968–72 they purchased four times as much from foreign countires as they purchased from the United States. You haven't changed that, have you?

Admiral PEET. No, sir.

Mr. ROYBAL. I wanted to know whether beginning last year we were selling more to Latin America than to other countries. The overall aggregate may show that we are No. 3, but are we now catching up and perhaps even exceeding the other countries?

Admiral PEET. I do not believe we are, Mr. Congressman, because of the constraints and the ceiling on credit sales.

Mr. ROYBAL. Can that be made for the record?

Admiral PEET. Yes, it can; and I will provide it. There is something else I would like to point out to prevent misunderstanding. When we discuss grants and sales in Latin America we are talking about two entirely different groups of countries. The countries that are buying the equipment are Argentina, Brazil, Chile, Venezuela, Colombia, and so on. We are not providing them any grant assistance except for training.

[The information follows:]

In fiscal year 1971 we were third in military sales to Latin America and in fiscal year 1972 we were second. However, the relative ranking of the United States in foreign military sales to Latin America as compared to other individual selling countries during any one fiscal year is really dictated by the total annual amount of military equipment purchases made by Latin American countries. If they are not buying much, the United States will rank higher; if they are buying in large amounts, the United States will rank low. Latin American countries generally prefer U.S. equipment and doctrine, and will purchase as much as we can provide. Low credit appropriations, the legislative ceiling and other restrictive amendments limit the amount of sales in any 1 year to a maximum of $150 million. Therefore, our relative ranking will rise or lower depending on the total military purchase made by Latin American countries during a year. As an example, in fiscal year 1970 when we had no credit authorization we were sixth. In fiscal year 1971, with a credit authorization, we rose to third. In fiscal year 1972 we were second; however, the aggregate total Latin American military purchases from all countries during fiscal year 1972 was about $115 million less than in fiscal year 1971. The restrictions on so-called "sophisticated" equipment to Latin America further limits the U.S. competitive position in relation to other selling countries.

Mr. TARR. Mr. Chairman, I would like to give a little different answer. I think that our position in the market is improving.

Mr. PASSMAN. Improving is a good word, but it is a question of how much we are improving.

Let us make the record.

Mr. LONG. You glory with the idea of selling them arms and seem to think that it is so nice that we are catching up with the other supplying countries. Do you really feel good about that, Mr. Secretary? Do you feel good, that we are selling our share of weapons to a continent that is so desperately poor and falling behind all the time in its development efforts?

Mr. TARR. Mr. Long, I understand Mr. Roybal's question to be an honest attempt to try to evaluate the American position in the market.

Admiral Peet gave an answer that indicated that he thought our position in the market was not changing.

Mr. LONG. You called this an improvement. That was your word. It carries a certain connotation.

Mr. TARR. I thought it might be helpful to the committee if I gave my view.

Mr. LONG. Why don't you say we are increasing quantitatively or something like that. To us the word "improvement" I think is disgusting.

Mr. TARR. That our sales are increasing quantitatively in the market?

Mr. LONG. That is better. The word improvement that you used I think is revolting.

Mr. PASSMAN. Thank you, Dr. Long. The word sophisticated is a question of interpretation as to what is or is not sophisticated equipment; isn't that true?

Admiral PEET. That is true.

Mr. PASSMAN. If Latin Americans are determined that they are going to buy military equipment, our wishes notwithstanding and our restrictions and legislation notwithstanding they will buy the equipment. We are putting the bilateral aid in on a grant basis, which permits them to use their own resources to buy from our competitors and we really indirectly put up the money and lose the profit. It would appear to me this thing should be looked at again.

EFFECT OF RESTRICTIVE LEGISLATION

Mr. PASSMAN. As we know, the shift to the European market has happened in the last 6 or 7 years. As the Congress started restricting this aid they started shifting their purchases to foreign nations. Isn't that a statement of fact?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Didn't this thing start in that direction about 6 or 7 years ago when we put in restrictive legislation?

Admiral PEET. Yes, sir.

Mr. LONG. You remember, Mr. Chairman, that the purpose was to cut off aid.

Our idea at that time was to say if you want to go ahead and buy all these weapons, whether from us or from other countries, you are not going to get bilateral aid from the United States.

Mr. PASSMAN. I am a realist.

Mr. LONG. I agree that if they want to go ahead and buy arms we cannot stop them. But at least we do not have to finance this insanity. Apparently that is what the State Department and the military want to continue to do.

Admiral PEET. Mr. Chairman, you have to get into practical cases and decide what is in the best interests of the United States. I think Dr. Tarr and I agree.

Mr. PASSMAN. We are not quarreling with you.

Admiral PEET. However, I would like to address the specific problems facing the United States. Take the one facing us in Brazil. It in-

volves sophisticated equipment that Brazil is going to buy, F–5 and C–130 aircraft.

Mr. LONG. Why don't we stop giving them aid?

Admiral PEET. We are not giving Brazil any grant aid. I think it is in the best interests of this country to sell those aircraft to Brazil. She is going to buy them. I think it is also in our interest to give Brazil credit at the cost of money to the United States.

Mr. LONG. If the Chairman will yield——

AID THROUGH MULTILATERAL ORGANIZATIONS

Mr. PASSMAN. No, I am not yielding at this point. Let us get the record straight, Doctor. You say we are not giving them aid. Admiral, we are being bypassed by the multilateral organizations. Let us look at the Inter-American Development Bank, those people are into us for billions of dollars. This year they are trying to offset this committee's cut last year and also ask for a new amount. They are trying to circumvent the work of this committee. They do not have to get funds as bilateral aid. The can go through the multilateral organization, bypassing this committee, and they get it. Again if you just have to have an aid program, have it bilateral and let these people pay this money back into the U.S. Treasury. Don't feed it to them through one of the international organizations where none of it ever gets back to the U.S. Treasury. You know that they are in big in the Inter-American Development Bank, are they not?

Admiral PEET. Yes, sir.

Mr. PASSMAN. They are trying to make fools out of this committee. They are offsetting the work of the committee. What can we do about that? If you had all types of restrictive legislation as it would apply to sophisticated equipment, it would not apply to the Inter-American Bank, would it?

Admiral PEET. No, sir.

Mr. PASSMAN. It would not apply to the International Development Association and it would not apply to the International Finance Company or the World Bank.

Admiral PEET. No, sir.

Mr. PASSMAN. There we are.

Admiral PEET. Dr. Tarr and I are only addressing——

Mr. PASSMAN. We are not quarreling with you. We are showing how ridiculous we are to let these people outsmart us. They do not have to get bilateral aid because they go through the international organizations and get multilateral aid and maybe get three times as much. Isn't that true?

Admiral PEET. Yes, sir.

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

Doesn't that money that we put into the Inter-American Bank go through our committee?

Mr. PASSMAN. It goes through our committee, but they say these funds have been authorized and we had this agreement, now you are obligated to put up the funds. We made the record abundantly clear we do not have to give them a nickel because it is all predicated upon an appropriation. They are trying to bypass this committee by these multilateral requests.

Mr. LONG. Isn't this backdoor spending, Mr. Chairman?

Mr. PASSMAN. That is not the point. The point is that they cancel out the work of this committee when we make reductions by going through one of the multilateral organizations. The multilateral organizations have grown, I believe, by 500 percent in 4 years, just about destroying this committee. There is no use to make cuts because they go right into a multilateral organization and offset it. What we are worrying about, Admiral, is how the State Department can justify going back into Chile with a military assistance program.

Mr. LONG. And Peru.

NEED FOR CHILEAN AID PROGRAM

Mr. PASSMAN. First let us take Chile. How can you justify an aid program in Chile?

Admiral PEET. From a Defense Department point of view, we consider Chile a political problem and therefore primarily a matter of State interest. ———.

———.

Mr. PASSMAN. Let us get back to the basics. You are talking about a Communist form of government.

Admiral PEET. In Chile, yes, sir.

Mr. PASSMAN. They expropriated all the American company properties, did they not? Could a country be any more Communist than Chile?

Admiral PEET. I would prefer that State answer that question.

Mr. PASSMAN. Could they? Do you know of any country that could be any more Communist than Chile?

Mr. TARR. Mr. Chairman, I think you are right. The problem here is the orientation of the government and the hope is to——

Mr. LONG. Buy them off.

Mr. TARR. ———.

Mr. PASSMAN. How could they get any closer to communism than they are?

Admiral PEET. They can't. However, we are maintaining influence; ———.

Mr. PASSMAN. Pursuant to provisions of section 4, the Foreign Military Sales Act, the President signed a Presidential determination, on May 21, 1973, in which he determined that the extension of credit to the governments of Argentina, Brazil, Chile, Colombia, Venezuela, in connection with the sale of F–5 military aircraft is important to the security of the United States.

DECIDING TO AID CHILE

Who made the interpretation that it would be in the interest of the security of the United States? How could they ever interpret that as being favorable to the United States? The President didn't do that. The State Department cooked this up.

Admiral PEET. The President signed that determination as is required by law.

Mr. PASSMAN. It takes 1,293 men to do everything that is issued in the name of the President. Everything that is done is done in the name of the President because it is his administration. Who actually

reached this determination and upon what reasoning did they base this decision on?

Mr. TARR. Mr. Chairman, it was primarily a determination by the two departments, State and Defense.

———.

The Chief of Staff of the Army of the Government of Chile has just returned from an extensive trip, both in the United States, Europe and Russia. ———.

Mr. PASSMAN. According to this determination it has been made.

Mr. TARR. No, sir. The determination is not a determination that we will sell.

Mr. PASSMAN. They are now eligible.

Mr. TARR. That is correct.

Mr. PASSMAN. I want to be fair about this. Actually, where is this decision made? Who sits in on the policymaking meeting when you come up and submit this to the President for his approval? Of course the President must follow the recommendations of his subordinates because, as I say, according to the computer, it takes 1,293 individuals to do everything that is issued in the name of the President. At what level do you discuss sales of aircraft to, let's say, Chile?

PARTICIPANTS IN AID DECISION

Mr. TARR. Let's take that piece of paper as an example. It was primarily developed in the Latin American regional bureau.

Mr. PASSMAN. Who is head of the regional bureau in Latin America?

Mr. TARR. The man who has recently taken that responsibility is Mr. Kubisch.

Mr. PASSMAN. From what area of endeavor did he come—out of the free enterprise sector?

Mr. TARR. No, he was the Deputy Chief of Mission in Paris.

Mr. PASSMAN. By Chief of Mission, you mean you are talking about AID?

Mr. TARR. He was the No. 2 man in our Embassy.

Mr. PASSMAN. He has a position under the Ambassador? He heads up this team. Who is on that board with him?

Mr. TARR. He has a couple of hundred people who work for him.

Mr. PASSMAN. This is not at a high level like in the Department between Secretaries of State. You are considering it at a level below the ambassadorial level, aren't you? I want to be honest about it.

Mr. TARR. I wouldn't say below the ambassadorial level.

Mr. PASSMAN. You just said he was head of that team.

Mr. TARR. No, no, before he became——

Mr. PASSMAN. What is his title now?

Mr. TARR. Assistant Secretary.

Mr. PASSMAN. Which one? There are a hundred of them.

Mr. TARR. Assistant Secretary for American Republic Affairs. Then after he develops this position——

Mr. PASSMAN. With the assistance of whom, Mr. Secretary?

Mr. TARR. At the outset with the assistance of the people in the bureau who work for him. Then it is signed out by, my guess is, three or four people in the Department, including the Secretary.

Mr. PASSMAN. In his Department?

Mr. TARR. No, the Secretary of State.

Mr. PASSMAN. You have reached the initialing stage. All they do is initial it. I don't want to cast any reflections. They may be the smartest people in the world. These decisions are actually made at a level even below the ambassadorial level. This moves up to the Secretary of State after the decision has been made. Then his responsibility is to initial it. Isn't that about it?

Mr. TARR. On a case like this, the Secretary would be actively involved.

Mr. PASSMAN. How can you spread a man so thin? We have an AID program going in over a hundred nations. This is one little thing we are getting into. Aren't we in accord that these people cannot get in on all of these little, let's say, contracts that we enter into?

Mr. TARR. They can't get in on all of them. But if you were to call up the Secretary of State right now or to call up the Deputy Secretary of State, they would be very familiar with this particular program.

Mr. PASSMAN. Then they wouldn't be very familiar with a lot of other things, would they?

Mr. TARR. That is right.

Mr. PASSMAN. Let's face up to it. Do you know anything in Chile that is owned by any American companies that hasn't been expropriated since that Government has gone into office? Anything worth taking home they picked up, didn't they?

Mr. TARR. I think so.

PROJECTED PROGRAM FOR CHILE

Mr. PASSMAN. Gentlemen, we know that is true. Let's get right down to the terms of F–5 sales to Chile. What are the terms? It has to be discussed now.

Admiral PEET. The determination merely permits us to negotiate. We haven't done that yet. Even before the matter reached State for a decision on this determination, the Country Team and the Ambassador had both addressed it, approved it, and wanted to do it. We are in the process of discussing it. We are not sure we can do it.

Mr. PASSMAN. Gentlemen, from little acorns big trees grow. I didn't know of one of these programs that didn't blossom up into a full-fledged program. If you know one, name it for the record. I don't know of anything that can stop you except maybe this committee. This program would provide training, would it not?

Admiral PEET. Yes, sir. But this sort of thing they pay for.

Mr. PASSMAN. They are going to pay for the training?

Admiral PEET. They would pay for everything in connection with the F–5 sale.

Mr. PASSMAN. You don't say anything about it here. You are bound to have had some estimates or projections as to what you do. Could you tell the committee, if not now, for the record, what types of services would go with the sale of F–5 aircraft?

Admiral PEET. The normal procedure is for the country to request a letter of offer from us. Such a letter of offer would include, in some cases, the training. It would also include the spare parts support and ground equipment.

Mr. PASSMAN. Could you tell the committee there would not be any grant aid that goes with it?

Admiral PEET. Absolutely.

Mr. PASSMAN. What are the maximum terms of your military credit sales?

Admiral PEET. As it looks now, it would be at the cost of money, which varies each month. It is now 6⅞ percent, but I think it's going higher this month.

Mr. FORMAN. It probably will be higher.

Mr. PASSMAN. I am an enthusiastic supporter of military sales. It means money for our country and profit for the Treasury and it means if we don't sell it to them someone else will. I want your assurance that this will be either cash or it will be on credit terms if it's approved.

Admiral PEET. It would be FMS cash or credit.

Mr. PASSMAN. With the minimum terms?

Admiral PEET. Minimum terms would be cost of money to the United States over an 8- to 10-year period.

Mr. PASSMAN. I thought you limited it to 7 years.

Admiral PEET. The law permits terms up to 10 years.

Mr. PASSMAN. That is the maximum?

Admiral PEET. Yes, sir.

Mr. BEVILL. What is FMS?

Mr. TARR. Foreign military sales.

Mr. SHRIVER. You are proposing about $1 million for next year?

Admiral PEET. No, sir, it is $10 million.

Mr. PASSMAN. We presently have a grant-aid program for Chile on military. Now we are proposing to move it over on the sales basis and then cancel out any subsequent grants in military.

Admiral PEET. Grant materiel for Chile was terminated in 1968.

Mr. PASSMAN. How about the training, Admiral?

Admiral PEET. We are proposing $1 million in training.

Mr. PASSMAN. In other words, you are going to continue the training on a grant-aid basis?

Admiral PEET. Yes, sir.

Mr. PASSMAN. I am almost ready to give up!

Admiral PEET. That is the request.

ALLOCATION

Mr. PASSMAN. Would you please provide for the record a table showing the percentage and amounts you propose to allocate for the region in fiscal year 1974 for operations and investment.

Admiral PEET. Yes, I will provide that data for Latin America. [The information follows:]

LATIN AMERICAN COST CATEGORIES

[In thousands of dollars]

Country	Total program, dollars	Operating[1]		Investment[2]	
		Dollars	Percent	Dollars	Percent
Bolivia	3,996	1,033	26	2,963	74
Dominican Republic	796	279	35	517	65
El Salvador	400	50	12	350	88
Guatemala	1,080	9	1	1,071	99
Honduras	400	60	15	340	85
Nicaragua	1,023	194	19	829	81
Panama	230	137	60	93	40
Paraguay	550	167	30	383	70
Uruguay	1,000	763	76	237	24
Regional program	560	560	100		
Regional total	10,035	3,252	32	6,783	68

[1] Operating costs represent the value of equipment, supplies, and services required to operate and maintain the capability of country assets, low unit value secondary items and all expendables—except war reserve ammunition, initial stockage level of spare parts and secondary items programed as a part of a major item or system investment. Also included in operating costs are the charges for supply operations (shown as general costs, not distributed by country) which represent the costs of packing, crating, handling and transportation incurred in the issue and transfer of materiel in the operating and maintenance category as well as logistics management expenses.

[2] Investment costs represent the value of equipment, supplies and services which increase the force capability including initial unit equipment, war reserves of equipment and ammunition, replacement of obsolescent equipment by improved types, the initial stockage level of spare parts programed for shipment concurrent with related major items, all construction and the cost of supply operations (shown as general costs, not distributed by country) required for investment materiel and services.

COUNTRIES EXPERIENCING A COUP

Mr. PASSMAN. Could you tell us if any countries in Latin America have experienced a coup this past year, and if so, has the United States suspended military aid to these countries?

Admiral PEET. Two Latin American countries experienced coups in 1972. In Ecuador, Army Commander in Chief General Guillermo Rodriguez led a coup on February 15, 1972, against President Jose Maria Velasco Ibarra. The primary motivation was to prevent the expected election in June of a leftist reformer as President. In Honduras, Armed Forces Commander in Chief General Oswaldo Lopez led a coup on December 4, 1972, to replace the weak coalition government of President Ramon Cruz. There had been widespread criticism of the ineffectiveness of 77-year-old President Cruz' weak government, and many sectors of society had turned to General Lopez, who had ruled the country from 1963 through mid-1971, to intervene.

U.S. military aid to Ecuador was already in suspension at the time of the coup as a consequence of the fishing seizure issue and the withdrawal of the U.S. military group from Ecuador. Military assistance to Honduras, consisting primarily of training, was not suspended during the coup.

RULING GOVERNMENTS

Mr. PASSMAN. How many Latin American countries are now being ruled by governments which took power by force?

Admiral PEET. There are five governments in Latin America which came to power by force and have remained in power without seeking legitimization through the electoral process. These are Bolivia, Cuba, Eduador, Honduras, and Peru. In three additional countries Brazil,

Panama, and Paraguay—governments that originally came to power by force have since held elections which have confirmed the government in power.

RESTRICTIONS ON AID

Mr. PASSMAN. The United States can restrict or suspend its own aid and restrictions have been placed on our military aid, but what is to prevent any of these countries from obtaining desired weapons from other countries?

Admiral PEET. We have no direct control over sovereign countries purchase of military equipment from third countries.

Mr. PASSMAN. Could you please tell the committee what restrictions have been placed on military aid to Latin America?

Admiral PEET. The executive branch reviews and considers requests for military security assistance on a country-by-country basis. With regard to the numerous legislative restrictions with which the committee is aware, the following listing summarizes the content of these restrictions:

Section 33 of the Foreign Military Sales Act limits the aggregate total of grant, foreign military sales (cash and credit), and ship loans to $100 million (excluding training). The President has authority to raise this ceiling in any year up to $150 million.

Section 23 of the Foreign Military Sales Act limits credit repayment to a 10-year period.

Section 32 of the Foreign Military Sales Act prohibits Ex-Im Bank financing of military sales to less-developed countries.

Section 3(b) of the Foreign Military Sales Act specifies that no sales, credits, or guaranties for period of 1 year shall be made to any country which has seized, taken into custody, or fined an American fishing vessel for engaging in fishing activities beyond the 12-mile limit. The President may waive this provision for national security or upon receipt of reasonable assurances from the country involved that future violations will not occur and promptly so reports this fact to the Congress.

Section 1 of the Foreign Military Sales Act states that it is the sense of Congress that sales and guarantees shall not be approved where they would have the effect of arming military dictators who are denying the growth of fundamental rights or social progress to their own people.

Section 35 of the Foreign Military Sales Act specifies that, when the President finds that any less-developed country is diverting development assistance, furnished under the Foreign Assistance Act or sales under the Agricultural Trade Development and Assistance Act, to military expenditures or diverting its own resources to unnecessary military expenditures, to a degree which materially interferes with its development, such country shall immediately be ineligible for further FMS sales and guarantees until the President is assured that no further diversion will take place.

Section 504(a) of the Foreign Assistance Act and section 4 of the Foreign Military Sales Act prohibit use of funds for provision of "sophisticated weapons systems, such as missile systems and jet aircraft" for military purposes to underdeveloped countries.

Section 507 of the Foreign Assistance Act limits the grant, to Latin America, of defense articles to $10 million.

Section 514 of the Foreign Assistance Act requires countries to deposit in a special U.S. account 10 percent of the value of grant assistance provided (includes materiel, training, and excess defense articles).

Section 510 of the Foreign Assistance Act limits the number of military students that can be brought to CONUS for training in any one fiscal year.

Section 620(e) of the Foreign Assistance Act specifies that the President shall suspend assistance to any country which fails to take appropriate steps to provide compensation or relief after:

Having nationalized, expropriated, or seized ownership of U.S.-controlled property;

Having taken steps to repudiate or nullify existing contracts or agreements with any U.S. citizen, corporation, partnership, or association; or

Having imposed or enforced discriminatory taxes, restrictive maintenance, or operational conditions, or other actions that have the effect of nationalizing or expropriating, or otherwise seizing ownership or control of property;

Such suspension shall continue until the President is satisfied that appropriate steps are being taken and no other provision of this act shall be construed to authorize the President to waive the provisions of this subsection.

Section 620(o) of the Foreign Assistance Act requests that consideration shall be given to excluding from assistance any country which seizes or imposes any penalty or sanctions against any U.S. fishing vessel for fishing activities in international waters. This provision is not applicable in any case governed by international agreement to which the United States is a party.

Section 113 of the Foreign Assistance Appropriation Act, 1972, states that no part of any appropriations contained in the act may be used to provide assistance to Ecuador, unless the President determines that the furnishing of such assistance is important to the national interest of the United States.

The Fishermen's Protective Act states that, in any case where a vessel of the United States is seized by a foreign country in territorial waters or on the high seas on the basis of claims therein not recognized by the United States, and a fine, license fee, registration fee or any other direct charge must be paid in order to secure the prompt release of vessel and crew, the owner shall be reimbursed by the Secretary of the Treasury and the amount of such reimbursement notified to that country. The Secretary of State shall take such action as he deems appropriate to make and collect claims against such foreign country for the amounts so reimbursed and payments so made. If a foreign country fails or refuses to make payment in full within 120 days after such notification, the Secretary of State shall transfer an equal amount from any Foreign Assistance Act funds appropriated by Congress and programed for the current fiscal year for that country to a special Fishermen's Protective Act account. The sanctions outlined in the Fishermen's Protective Act may be waived if the President certifies to Congress that it is in the national interest.

The Naval Vessel Loan Extension Act—Argentina, Brazil, Chile Colombia, Federal Republic of Germany, Greece, Republic of Korea, Portugal, Spain and Peru—Public Law 90-224, 81 Stat. 729 (December 26, 1967) states that any agreement for a new loan or extension of a loan agreement shall be subject to the condition that the loan will be immediately terminated upon a finding by the President that the country with which such agreement was made has seized any U.S. fising vessel for fishing activities in international waters.

THIRD COUNTRY AID

Mr. PASSMAN. Could you tell us what Latin American countries are presently purchasing weapons from nations other than the United States and in what amounts?

Admiral PEET. The most recent year for which we have data is fiscal year 1972. The data is as follows:

Third country sales to Latin America by purchaser (fiscal year 1972)

	Millions
_____	$0.5
_____	67.0
_____	8.0
_____	6.5
_____	3.6
_____	194.3
Total	279.9

Mr. PASSMAN. Which nations are presently supplying the major volume of defense business to Latin America at this time?

Admiral PEET. In the last year for which we have data, fiscal year 1972, the suppliers were Belgium, Canada, France, Spain, Great Britain and the United States, with France, the United States, Canada and Great Britain being the major suppliers, in that order.

The amounts of sales were as follows:

	Millions $
Belgium	
Canada	
France	
Spain	
Great Britain	
United States	

UNITED STATES SUSPENSION OF AID

Mr. PASSMAN. At the present time, is U.S. military aid suspended to any of the Latin American countries?

Admirla PEET. Yes, foreign military sales activities and grant assistance have been suspended to Ecuador because of seizures of U.S. fishing boats outside the 12-mile limit, the expulsion of our U.S. military group and denouncing the military assistance bilateral agreement and their ineligibility because of section 620(q) of the Foreign Assistance Act.

Mr. PASSMAN. I note this year that apparently there is no military aid scheduled to be provided to Ecuador in fiscal year 1974. Could you please tell the committee if this is the result of the suspension of aid to Ecuador because of the seizure of U.S. fishing boats?

Admiral PEET. In accordance with section 3(b) of the Foreign Assistance Act, foreign military sales were suspended resulting from Ecuador's seizures of U.S. fishing boats. Ecuador's reaction to this suspension was to request the U.S. military group to leave and to terminate the military assistance agreement which then resulted in our suspension of grant programs.

U.S. ARM SALES

Mr. PASSMAN. I have read several articles which indicate that Europe is fast becoming the arms supplier for Latin America. Many people have argued that the United States should not supply arms to Latin America because it will lead to an arms race and divert their efforts from economic development. I guess these articles prove the point that if the United States does not sell arms to Latin American countries they will buy the equipment from other sources. Will you please comment?

Admiral PEET. Our experience has been that whenever the United States has been unable to respond to requests for sale of arms to Latin America, whether for reasons of legislative restraints, lack of available credit or policy determinations, the country in question has been able to obtain the equivalent weapons from a third country.

Mr. PASSMAN. By not making these sales, is it not true that the United States not only loses the sales transaction which is usually paid back in dollars at the going interest rate, but American industry loses the business and the U.S. Treasury loses additional tax dollars from the business loss?

Admiral PEET. The sales credits extended by the U.S. Government are always paid back in dollars and usually at the going interest rate. The loss of sales is a direct loss of profits to U.S. business in most cases, and any loss of profits to U.S. business results in a loss of tax dollars to the Treasury. In addition, we have a balance-of-payments loss because repayments on loans are made in dollars which might otherwise not be repatriated.

TERMS OF SALES

Mr. PASSMAN. Could you please tell the committee what the terms of the sales are which are made from other countries to Latin America?

Admiral PEET. We do not have complete information on terms of sales by third countries. However, we have information about certain sales in which ——— concerns reportedly offered an interest rate of 3 percent on a portion of the sale with the balance at 7 percent, thus reducing the effective rate. The ——— is reportedly offering a 3-percent interest rate with a 20-year repayment period. We believe that the terms of sale by the United Kingdom and Canada are similar to ours.

ECONOMY OF FORCE AREA

Mr. PASSMAN. On page 55, you use the term "economy of force area," relating to Latin America. Could you please tell the committee what you mean by this terminology?

Admiral PEET. In military parlance, an "economy of force area" suggests one in which we attempt to accomplish our purposes through use or application of only a small or modest level of resources, while concentrating our principal forces or efforts elsewhere.

NATURAL RESOURCES

Mr. PASSMAN. You also indicate that military assistance will be used to maintain access to important natural resources. Could you please tell the committee what natural resources you have in mind here?

Admiral PEET. Latin America has supplied a number of important natural resources to the United States, including petroleum, bauxite, iron ore, antimony, cadmium, copper, tin, zinc, lead, and bismuth. The U.S. Government seeks to establish conditions throughout the Latin American region which will provide long-term access to these currently identified and other potential deposits of natural resources. One element of the effort to maintain favorable relations involves the provision of military assistance.

U.S. MILITARY BASES

Mr. PASSMAN. Would you please tell the committee where the U.S. military bases and facilities are located which are considered to be essential to U.S. security efforts?

Admiral PEET. The U.S. military base structure in the Caribbean area meets a variety of security needs. Functionally, these facilities fall into the following categories:

Antisubmarine warfare (ASW).

Panama Canal defense.

———.

Strategic communications.

Scientific, technological, and navigation.

Headquarters, training, and support.

First, antisubmarine warfare. ———.

The tactical and support bases for antisubmarine warfare are located at U.S. Naval Station Roosevelt Roads, P.R., an U.S. Naval Base, Guantanamo, Cuba.

Ramey AFB, P.R., and Howard AFB, C.Z., could also support the ASW effort. The United States also has ASW air patrol base rights in Surinam, Curacao and Aruba.

The bases on which we rely for defense of the Panama Canal are located as follows:

U.S. Naval Base, Guantanamo, Cuba.
Albrook Air Force Base, C.Z.
Howard Air Force Base, C.Z.
Army air defense facilities, Canal Zone.
Canal Zone Army bases.

———.

The facilities providing strategic communications are located as follows:

———.

The facilities supporting the scientific, technological, and navigation efforts are located as follows:

Atlantic Undersea Test and Evaluation Center (AUTEC), Andros Island, Bahamas and British Virgin Islands.
USAF Eastern Test Range (ETR), with stations at: Grand Bahama, Bahama Islands, Grand Turk, and Antigua.
U.S. Army Tropical Test Center, Canal Zone.
USAF Jungle Survival School, Canal Zone.
U.S. Coast Guard facilities at: San Salvador, Bahama Islands; South Caicos; Cape San Juan, Puerto Rico; Charlotte Amalie, U.S. Virgin Islands.
U.S. Navy OMEGA Station, Trinidad.

The support bases which provide control headquarters, housing, training and service support for the operating forces are located as follows:

Ramey Air Force Base, P.R.
U.S. Naval Station, Guantanamo, Cuba.
U.S. Naval Station, Roosevelt Roads, P.R.
Howard Air Force Base, C.Z.
Canal Zone army bases.
Jungle Operations Training Center, Fort Sherman, C.Z.
Numerous Reserve training centers located in Puerto Rico.

PURPOSE OF AID

Mr. PASSMAN. You state on page 55 that rising nationalism, violent extremism, and political confrontations continue to create problems in the hemisphere. You don't expect that the United States will ever correct all these problems by providing assistance, do you?

Admiral PEET. The United States cannot solve the problems of the Latin American countries; rather, that initiatives will need to come from within the countries themselves. However, the United States can help in this effort by providing assistance in a spirit of partnership and cooperation.

Mr. PASSMAN. You also state that security assistance helps to maintain the United States as the predominant foreign military influence in Latin America. Do you think the United States still maintains this position?

Admiral PEET. In general, we believe this condition still obtains, although it has been eroded in recent years. It is in this regard that we are concerned over the existing large body of legislation which places restrictions and limitations on the provision of military security assistance to the Latin American countries.

INSURGENCY

Mr. PASSMAN. Could you tell the committee what countries presently have an active insurgency movement within their borders?

Admiral PEET. Insurgency persists in a number of Latin American countries but at a relatively low level. In Colombia, small insurgent groups continue active, with some increase in their level of activity being noted in early 1973. In Venezuela, increased guerrilla activity in late 1972 and early 1973 led to successful government counteraction, seriously damaging future guerrilla capability. In Guatemala, the Cuban-supported rebel armed forces, in the past year and a half, has engaged in small-scale activity, including urban terrorism. In Mexico, a variety of small guerrilla groups have been able to elude government forces, but they are only sporadically active. Small guerrilla bands also exist in Brazil and in Bolivia, but they are relatively inactive. In Argentina, Chile, and other countries, militants have concentrated on terrorist activity rather than small guerrilla operations. The insurgent scene in Uruguay has been relatively quiet since the security forces cracked down on the Tupamaros last year. In none of these countries do the insurgents pose a serious threat to the governments concerned, principally because of their lack of significant support and the improved capabilities of the security forces in countering the insurgent efforts. Nevertheless, insurgent groups remain capable of disruptive activity.

MOBILE TRAINING TEAM

Mr. PASSMAN. Would you please tell the committee what a mobile training team is and how it functions?

Admiral PEET. Mobile training teams are composed of military department personnel on temporary duty for the purpose of training foreign personnel. They are provided for a specific training requirement in-country which is beyond the capability of the MAAG or military group and for which it is more expeditious, practical, and economical to bring the training to the country. These teams are, at times, dispatched to provide training associated with the countries receipt of equipment and to determine country training needs. In all cases, these teams are designed to train instructors in-country; thus, promoting in-country self-sufficiency.

U.S. INFLUENCE

Mr. PASSMAN. You state that the United States is still able to exert considerable influence in Latin America. Would you please tell the committee what type of influence we are able to exert?

Admiral PEET. With regard to our military relations, the Latin American military and their U.S. counterparts have worked successfully together on matters of mutual security for many years. This professional relationship has created avenues for communication and a degree of mutual understanding which we consider to be a continuing, positive factor in our overall relations with the countries of this region.

HAITI

Mr. PASSMAN. According to a newspaper article in April, it was noted that the country of Haiti had been put back on the eligible list to receive U.S. foreign military credit sales and credit programs. Could you please tell the committee if there are any plans at the present time to supply military equipment to Haiti?

Admiral PEET. Haiti has at various times requested U.S. Government assistance, both technical and materiel. Haiti was included on the list to permit flexibility in reviewing requests from the Haitian Government on a case-by-case basis. ———.

ARGENTINA

Mr. PASSMAN. On page 58, in connection with the security assistance program for Argentina, you state that the Argentine armed forces will act to preserve political stability. Does this mean that the armed forces act as a police force to hold down any opposition government?

Admiral PEET. The Argentine armed forces, as well as many of their counterparts in South America, envision their security role in a very broad way. If they perceive a threat to the country's political institutions or to their own military institutions, which they view as a vital safeguard of national welfare, they may move to oust the government in power, replacing it themselves or with another government. This is a self-perception that is of long standing and deeply ingrained. It is a view held also by many civilians. The military in Argentina, as elsewhere, is often called in to support police when a threat to public order arises. This does not mean, however, that the military would act as a repressive "police force" to quiet all opposition to whatever government is in power.

For some time the preceding administration, under a military junta headed by General Lanusse, was committed to returning the country to civilian rule. This was accomplished through the March 1973, elections, which led to the inauguration of Peronist Hector Campora on May 25. At the same time, however, the army, police, and gendarmerie have increased their efforts against terrorist groups. These insurgent organizations hope eventually to overthrow the government, but persistent government actions have prevented the terrorist groups from becoming significant threats.

JET AIRCRAFT

Mr. PASSMAN. You also indicate that some of the security assistance program aims are to be responsive to requests for purchase of modern jet aircraft. Would it be true to say that if we don't supply jet aircraft to Argentina she will purchase them from European sources?

Admiral PEET Yes. Argentina has made a deliberate decision in favor of gradual modernization program over a period of years and has clearly indicated a preference for U.S. equipment in achieving their program objectives. Nevertheless, past legislative restraints and

reduced credit authorizations on our foreign military sales programs have impacted on our ability to respond favorably to Argentina's requests. This has resulted in their armed forces turning increasingly to third countries as a source of weapons to support their modernization programs. Until the United States demonstrates flexibility in its responses to requests, the trend toward European purchases in Argentina, as well as the rest of Latin America, is likely to continue.

THIRD COUNTRY AID

Mr. PASSMAN. Could you please tell the committee what third countries are supplying aid to Argentina, and in what amounts, and on what terms?

Admiral PEET. Currently, the United Kingdom, France, and West Germany are to deliver some $135 million worth of military equipment covered under prior contracts. The UK is to deliver ——— transport aircraft and ——— destroyers, with a total value of about ———. France is to deliver ——— jet fighter aircraft and radar and air defense electronic equipment, with a total value of about ———. West Germany is to deliver ———, valued at about $———. The only information on terms available covers the French aircraft contract, ———.

BOLIVIA

Mr. PASSMAN. On page 59, in connection with the security assistance program for Bolivia, you state that in fiscal year 1974, Bolivia faces the threat of internal subversion supported by external sources. Would you please explain this situation to the committee?

Admiral PEET. ———.

THIRD COUNTRY AID

Mr. PASSMAN. Is Bolivia receiving any assistance from third countries?

Admiral PEET. Canada, Switzerland, and Brazil are scheduled to deliver some $6 million worth of military equipment to Bolivia in 1973. Bolivia purchased ——— trainer aircraft valued at about ——— from Canada; ——— armored reconnaissance vehicles and 10,000 rifles with an estimated total value of ——— from Switzerland, and is to receive ——— trainer aircraft with an estimated value of ——— from Brazil as a gift. No information on terms is available but Bolivian purchases are generally small cash transactions.

SHIPS AND SPARE PARTS

Mr. PASSMAN. Would you please explain the $270,000 proposal for fiscal year 1974 for ships and spare parts?

Admiral PEET. Bolivia is developing a river patrol and transportation force in their remote northern region. Specifically, the proposed $270,000 will provide for in-country overhaul and modification of two steel hull vessels to be used for transportation on the major rivers; ancillary equipment necessary to assist Bolivia in outfitting the in-country construction of 5 45-foot boats; repair and rehabilitation

of a river patrol craft; and spare parts for existing equipment in the Bolivian Navy inventory.

BRAZIL

Mr. PASSMAN. On page 60 in connection with the security assistance program for Brazil, you indicate that Brazil has a dynamic economy. If this is the case, why do you find it necessary to provide $800,000 for training for Brazilian armed forces?

Admiral PEET. A military dialogue, rapport, and influence must be built and maintained between the friendly and allied nations and the United States if we are to avoid misunderstandings and, in an emergency, work together. Also we know that effective United States relationships with friendly and allied military forces serve to diminish the possibility of undesirable incursions by other military elements into those countries.

Training's utility, effect and influence, in terms of United States objectives, warrant its continuation on a grant basis. In the case of Brazil, the training costs to the United States are reduced. Brazil does not receive per diem from the United States for their personnel attending formal courses of instruction and, in accordance with section 514 of the Foreign Assistance Act, they deposit 10 percent of the cost of the training provided.

Mr. PASSMAN. Don't you think that Brazil would be able to pay this sum on her own?

Admiral PEET. Brazil would probably be able to pay; however, if she were forced, it would probably result in Brazil utilizing less training, accompanying loss of influence and a possible turn to third countries for some of her training needs.

THIRD COUNTRY AID

Mr. PASSMAN. Would you please tell the committee what third countries are providing aid to Brazil, in what amounts, and on what terms?

Admiral PEET. During the coming 6 years, the United Kingdom, France, Italy, and West Germany are scheduled to deliver some $600 million worth of military equipment to Brazil under previous contracts. No new 1973 contracts are known to have been concluded.

———.

CHILE

Mr. PASSMAN. On page 61, in connection with the security assistance program for Chile, I note that you plan to provide $1 million for training in fiscal year 1974 as an outright grant. Why are we providing grant aid to Chile when Chile has nationalized such a large amount of United States property?

Admiral PEET. The military in Chile are not politically oriented.

SALES PROGRAM

Mr. PASSMAN. You also indicate that you are going to provide $10 million in foreign military credit sales. Are these sales made at going interest rates and to be repaid in 10 years?

Admiral PEET. We expect that the credit will be at the cost of money to the U.S. Treasury, with repayment in 8 years. These are our usual terms.

NATIONALIZATION

Mr. PASSMAN. Has any progress been made in negotiations with Chile concerning the nationalization of United States property in that country?

Admiral PEET. The bilateral discussions with the Government of Chile have been in progress since December 1972, and my understanding is that the process is continuing. The Department of State heads the United States delegation at these talks and I would defer to that department for further information on this matter.

THIRD COUNTRY AID

Mr. PASSMAN. Could you please tell the committee what third countries are providing assistance to Chile, in what amounts, and on what terms?

Admiral PEET. The United Kingdom and France are scheduled to deliver some $128 million worth of military equipment to Chile under prior contracts. ———.

The contract terms are unknown.

———.

During 1973, Chile contracted for another $11 million worth of equipment from West Germany, Belgium, Italy, Spain, and France. The 1973 purchases all appear to be cash on very short-term credit sales.

COLOMBIA

Mr. PASSMAN. On page 62, in connection with the security assistance program for Colombia, you state that splintered insurgency threat remains in the country and the armed forces have little prospect of eliminating this threat. There seems to be a rather hopeless outlook for this country, doesn't it?

Admiral PEET. I would by no means call the outlook for Colombia hopeless. It is just that insurgency has persisted for decades in the country, and the presently active guerrilla bands generally remain in rugged mountainous and jungle pockets, in relatively isolated areas of the country. These small areas are generally under guerrilla control, and banditry and guerrilla activity in these areas is almost a way of life. Despite the fact that the Colombian security forces are generally well trained and engage in counterinsurgency operations, and despite the fact that the insurgents consist of various relatively small bands, the likelihood that insurgency can be totally eliminated is very small. This does not mean that the insurgents now are or in the foreseeable future will be a serious threat to the Colombian Government.

Mr. PASSMAN. Does that mean that the United States is going to have to supply security assistance to this country forever?

Admiral PEET. The United States terminated grant material assistance to Colombia in 1970. We currently provide only grant training assistance which is expected to continue for the foreseeable future. Colombia also purchases modest amounts of equipment under FMS

cash and credit sales programs, which also can be expected to continue, subject to legislative authorization and appropriation of credit funds.

THIRD COUNTRY AID

Mr. PASSMAN. What third countries are providing assistance to Colombia, in what amounts and on what terms?

Admiral PEET. France, West Germany, and Italy are scheduled, under prior contracts, to deliver some $53 million worth of military equipment to Colombia. France delivered ——— jet fighter aircraft ——— and is to deliver ——— more. The value of these deliveries is about ———. The French contract, with a value of ———. West Germany is to deliver ——— submarines, valued at ———, terms are unknown. Italy is to deliver ———, valued at ———, terms are unknown.

DOMINICAN REPUBLIC

Mr. PASSMAN. On page 63, in connection with the security assistance program for the Dominican Republic, you state the armed forces would probably be capable of maintaining internal security in the absence of a large amount of outside assistance to the insurgents. What internal security problem does the Dominican Republic have and from what source would be the assistance from outside?

Admiral PEET. The greatest security threat facing the Dominican Republic is the hit-and-run terrorist activity, most likely in the urban areas. The most active group currently is the Dominican Popular Movement (MPD) and a faction of this organization called the "Plinio Group." ———.

EL SALVADOR

Mr. PASSMAN. On page 64, in connection with the security assistance program for El Salvador, I note this year you are starting a materiel assistance program to this country. Could you please tell the committee why you find it necessary to reintroduce a military materiel program to this country?

Admiral PEET. Although our materiel programs were suspended after the 1969 outbreak of hostilities with Honduras, undelivered balances of nonlethal equipment from past programs were allowed beginning in 1970. The armed forces want to modernize and become more professional. We think that under current conditions a small program of the kind proposed contributes to a helpful and cooperative relationship between U.S. representatives and key members of their armed forces. ———.

Mr. PASSMAN. In the justification you state that relations with Honduras remain strained because of the 1969 war. Don't you think that by supplying these two countries with material assistance, they might feel that they have the strength to renew war with each other?

Admiral PEET. ———. Our efforts are designed to reduce the likelihood of conflict between the two countries.

GUATEMALA

Mr. PASSMAN. On page 65, in connection with the security assistance program for Guatemala, you indicate that the internal disorder is

externally supported. Could you please tell the committee the source of this external support?

Admiral PEET. ———.

HONDURAS

Mr. PASSMAN. On page 66, in connection with the security assistance program for Honduras, you state that the grant materiel assistance program is subject to final review and approval. Would you please tell the committee who has the final say so on this program?

Admiral PEET. As with other military security assistance programs, the Secretary of State has final responsibility for determination of program recipients and levels.

MEXICO

Mr. PASSMAN. On page 67, in connection with the security assistance program for Mexico, I note that you plan to program $140,000 for training in fiscal year 1974. Don't you think the Mexican Government could pay for this training since it's such a modest amount?

Admiral PEET. Perhaps, however, this minimal program sustains the historic relationship between the Mexican military and the U.S. Military Establishment.

NICARAGUA

Mr. PASSMAN. On page 68, in connection with the security assistance program for Nicaragua, I note that the excess defense articles program has jumped from $22,000 in fiscal year 1972 to a program of $1,500,000 in fiscal year 1974. Would you please tell the committee why there is a need for such a large increase in this program.

Admiral PEET. Nicaragua's activity in the excess defense articles program has increased since the Managua earthquake disaster. Equipment being sought primarily is engineering equipment for their engineering units directly involved in the rebuilding process.

PANAMA

Mr. PASSMAN. On page 69, in connection with the security assistance program for Panama, I note you plan to provide $230,000 for military assistance in fiscal year 1974. Could you please tell the committee what type of equipment will be provided from these funds?

Admiral PEET. This program will provide a few vehicles, some aircraft engine overhauls and minor pieces of maintenance equipment; however, most of the program will provide spare parts for items already in their inventory.

Mr. PASSMAN. Has relationships between the U.S. Government and the Panamanian Government improved any in the past year or so?

Admiral PEET. I would say that our relations with Panama have not improved. The recent meeting of the U.N. Security Council in Panama City during the period March 15–21, caused a dip in our bilateral relations, but it appears that our differences are normalizing. This doesn't mean that all is well between our two countries.

———.

THIRD COUNTRY AID

Mr. PASSMAN. Could you please tell the committee what third countries are providing assistance to Panama and in what amounts?

Admiral PEET. Panama has no pending deliveries of major military equipment. In 1973, the country purchased ———.

PARAGUAY

Mr. PASSMAN. On page 70, in connection with the security assistance program for Paraguay, I note that the total security assistance program has jumped from $700,000 in fiscal year 1973 to $2.4 million in fiscal year 1974. Could you please tell the committee the need for this very large increase?

Admiral PEET. Since the only appropriations that were provided in fiscal year 1973 were those reduced levels under "Continuing resolution authority" only $450,000 of the originally proposed program could be funded. This, coupled with the requirement to provide engineer equipment to replace worn out equipment, has increased the total security assistance program for Paraguay. It should be noted that the bulk of this increase results from an increase to the excess defense articles program rather than funded programs.

PERU

Mr. PASSMAN. On page 71, in connection with the security assistance program for Peru, you state that Peru has particular strategic importance for the United States due to its potential influence that derives from its unique form of reformist government and programs. Would you please explain this statement to the committee?

Admiral PEET. The present military government came to power in a bloodless coup in 1968. The government's stated aims center on the restructuring of Peru's basic institutions so that all citizens will have a voice in shaping major political, economic and social programs. The government claims to be neither captialist nor Communist and is nationalist and moderately leftist. It has adopted a neutralist stance in its dealings with the major powers and therefore its success will directly affect U.S. relationships with other Latin American nations who are watching the "Peruvian model" carefully as a potential solution to their own problems.

Mr. PASSMAN. You also state that in the event that existing restraints are lifted, the fiscal year 1974 program is designed to respond to a stated Peruvian need for continued force modernization. Could you please tell the committee what you mean by "in the event that existing restraints are lifted"?

Admiral PEET. The lifting of existing restraints was referring to the President's authority to waive the provision of the Pelly amendment, section 3(b), of the Foreign Military Sales Act. This waiver was made by the President in May of this year, after publication of the "Congressional Presentation Document."

THIRD COUNTRY AID

Mr. PASSMAN. Could you please tell the committee what third countries are providing assistance to Peru, in what amounts, and on what terms?

Admiral PEET. The United Kingdom, West Germany, Argentina, and France are scheduled to deliver some $67 million worth of military equipment under prior contracts. The United Kingdom is to deliver ——— reequipped destroyers, valued at ———. Terms call for payment over a ———. West Germany is to deliver ——— submarines valued at ———. Argentina is delivering about ——— worth of truck-mounted 106-millimeter recoilless rifles and miscellaneous trucks. The original contract worth ———, half of which was delivered in 1972, called for an ——— interest. France is to deliver ——— jet fighter aircraft valued at ——— terms are unknown. Thus far in 1973, Peru has contracted for another $16 million worth of equipment from the Netherlands, U.S.S.R., Canada, Yugoslavia, and Spain. Terms of the 1973 purchases are unknown.

URUGUAY

Mr. PASSMAN. On page 72, in connection with the security assistance program for Uruguay, I note you indicate that the total security assistance program has increased from $1.9 million in fiscal year 1973 to $6.4 million in fiscal year 1974. Could you please tell the committee the need for this large increase?

Admiral PEET. Uruguay's increase primarily represents possible acquisition of excess S–2E patrol aircraft as well as providing for acquisition of equipment through foreign military credit sales. Sales credits could not be provided in fiscal year 1973 within the available funds appropriated under continuing resolution authority.

Mr. PASSMAN. Why is this very small nation considered important to U.S. security efforts?

Admiral PEET. Uruguay has faced a major internal security threat posed by Tupamaro terrorism since 1968. Failure to aid the country in containing this threat to stability might well contribute to an increase in terrorism and consequent political instability elsewhere in the hemisphere.

VENEZUELA

Mr. PASSMAN. On page 73, in connection with the security assistance program for Venezuela, I note you indicate that access to petroleum gives Venezuela special strategic interest for the United States. Could you tell the committee how much oil the United States imports from Venezuela and is the Venezuelan Government pro-United States at the present time?

Admiral PEET. Crude oil and refined products imported directly from Venezuela amount to approximately 1.5 million barrels per day. Another 1 million barrels per day of refined products is imported from Caribbean and Canadian refineries using Venezuelan crude. In other words, over 60 percent of Venezuelan production is directly or indirectly imported into the United States.

The Venezuelan Government remains pro-United States despite several recent foreign policy initiatives which are irritants in bilateral relations. ———.

Mr. PASSMAN. You also indicate that the security assistance programs are aimed at permitting continued implementation of a U.S. policy of "even-handedness" between Venezuela and Colombia. Could you please tell the committee what this policy of even-handedness is?

Admiral PEET. The policy of "even-handedness" means that military equipment of the same type and quantities will be offered to each country for purchase from the United States.

THIRD COUNTRY AID

Mr. PASSMAN. Would you please tell the committee what third countries are providing assistance to Venezuela, in what amounts, and on what terms?

Admiral PEET. France, West Germany, the United Kingdom, Canada, and Italy are scheduled to deliver military equipment valued at $185 million under prior contracts.

FOREIGN MILITARY CREDIT SALES

Mr. PASSMAN. As we think in terms of military sales, I have been an enthusiastic supporter of this program because people are going to buy military equipment, not just in Latin America but everywhere. There is a big profit in it. We are either going to sell it or our competition is going to sell it. So if it's for cash or on short terms, I wouldn't know why we shouldn't stay in the field until we can finally cool the world down to where people are going to move out of the area of trying to prepare for war.

Your 1974 estimate for military credit sales is $525 million. Is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. The committee then is considering the appropriation request for $525 million for fiscal 1974, which would be used to provide a total credit sales program for 1974 in the aggregate of $760 million. Is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Admiral, what are the average terms on military credit sales?

Admiral PEET. The average over a period of time is approximately 6 percent.

Mr. PASSMAN. You are talking about 6 percent interest. Do you charge the going rate at the time you approve the sale?

Admiral PEET. Yes, sir.

Mr. PASSMAN. I am talking now about the terms of the sale. What is the average?

Admiral PEET. Eight to ten years.

Mr. PASSMAN. Don't you have some on 2 and 3 years?

Admiral PEET. I don't believe so. I can give you a list of them.
Mr. PASSMAN. All right.
[The information follows:]

FISCAL YEAR 1973 CREDITS—TERMS OF SALE

Country	Amount of loan	Repayment period (years)	Moratorium (years)
Argentina	11.5	8	
Brazil	15.0	8	
Chile	6.5	8	
Chile	5.9	8	2
China	10.7	10	
China	3.0	8	
Colombia	10.0	8	
Greece	35.0	10	2
Guatemala	2.6	8	
Israel	200.0	10	(1)
Israel	100.0	10	(1)
Korea	15.0	10	
Korea	9.2	10	2
Lebanon	10.0	10	
Malaysia	10.0	8	
Morocco	9.8	10	
Turkey	20.0	10	2
Venezuela	7.6	8	

[1] 50 percent DOD direct credit—balance under DOD guaranty.

CASH AND CREDIT SALES

Mr. PASSMAN. We are dealing now with credit sales of $525 million. What are your estimated cash sales in military equipment for fiscal 1974?

Admiral PEET. $3.9 billion.

Mr. PASSMAN. In round figures?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Your cash sales will be in the neighborhood of $4 billion?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Whereas your credit sales would be in the neighborhood of a half a million dollars.

Admiral PEET. We are asking $525 million for NOA credit. Total credit sales will be more than that. The estimate is $760 million.

Mr. PASSMAN. If you use it on the basis of your program, it simply means your cash sales will be five times the credit sales.

Admiral PEET. Yes, sir.

GOOD REPAYMENT RECORD

Mr. PASSMAN. What has been your experience of repayment on military credit sales?

Admiral PEET. Outstanding.

Mr. PASSMAN. Do you have any that are delinquent at this time?

Admiral PEET. There are four in arrears. They amount to about $2 million at most out of a total of billions of dollars. Some of those are debatable.

Mr. PASSMAN. What has been the total military sales?

Admiral PEET. FMS credit sales over the years total is $3.1 billion, through fiscal year 1972.

Mr. PASSMAN. Over $3 billion. Then less than one-half of 1 percent are in arrears at this time. That is a commendable record, gentlemen, regardless of what you are selling.

Mr. LONG. What about rescheduling? Are some of these loans not in arrears because they have been rescheduled?

Admiral PEET. There are a few. We can provide that for you.

[The information follows:]

Five Government of Chile credit agreements executed during the period 1966 through 1969, with an outstanding balance of $12,095,254 as of December 31, 1971, were rescheduled. The rescheduling for each individual credit was done within the statutory limitation of 10 years between the initial date of loan utilization and the final date of repayment.

Following are the consolidated loan repayment schedules for the five agreements:

	Original principal repayment schedule	Revised principal repayment schedule
Year:		
1972	$2,766,075	[1] $333,315
1973	2,471,672	2,243,600
1974	2,471,672	2,471,670
1975	1,448,335	1,360,417
1976	1,375,000	1,360,417
1977	1,375,000	1,360,417
1978	187,500	* 1,360,418
1979		1,323,750
1980		281,250

[1] In addition to the revised principal repayment of $333,315 for 1972, interest due in the amount of $528,314 was also paid. Interest would continue to be computed in accordance with the terms of the basic agreement.

Mr. PASSMAN. But you will throw them in the category of being past due, would you not? They would be in that category until you have refinanced and added the interest.

Admiral PEET. I think there is a technical point involved. Chile was rescheduled.

Mr. PASSMAN. Any others?

Mr. LONG. I think the full amount of rescheduling and the reasons why and everything ought to be put in the record. To me that is the same as——

Admiral PEET. It's a very minor amount.

Mr. PASSMAN. In Chile, you rescheduled what amount?

Admiral PEET. I don't have the details of the rescheduling.

Mr. PASSMAN. You used the word "marvelous" in describing the repayment record.

Admiral PEET. Yes, sir. In fact, I would say it's outstanding.

Mr. PASSMAN. I think it's outstanding, too. As far as you know, Chile is the only nation you have rescheduled?

Admiral PEET. Chile is the only one we have rescheduled. The others that are in arrears are Ecuador, Paraguay, and Tunisia.

Mr. PASSMAN. How much was Chile, this one nation?

Admiral PEET. Chile had the largest arrearage—$1.3 million. The oldest due date is as recent as January 1973. They only recently became delinquent. As Dr. Long points out, there was some rescheduling in the case of Chile.

Mr. PASSMAN. You said at one point $3 million, Admiral.

Admiral PEET. Yes, sir.

Mr. PASSMAN. Still that is nothing compared to the total sales.

Mr. LONG. Would the chairman yield?

Mr. PASSMAN. Not until I make the record, Doctor. Then I will.

Admiral PEET. May I read this statement:

As a result of prior negotiations on April of 1973, the Department of Defense and the Government of Chile executed five amendments to provide for a rescheduling of payments for the fiscal year 1966 through 1969 credit arrangements.

MILITARY CREDIT SALES OUTSTANDING

Mr. PASSMAN. What is your outstanding in military credit sales? By that I mean accounts receivable.

Mr. VON MARBOD. Mr. Chairman, we estimated that the balance due against credit sales will be $1,791,300,000 as of June 30, 1973.

Mr. PASSMAN. That total amount in arrears is a very small percentage of this total. If all the funds in arrears went down the drain tomorrow, it represents a small percentage of the total repayments and cash sales.

Admiral PEET. Yes, sir, the amount in arrears does.

Mr. PASSMAN. I think that is the most marvelous record that has ever been read into the record. I don't see why if we are going to have military assistance programs, we shouldn't have it on a term basis. When people are willing to buy it that way, until this thing can be cooled off sufficiently and until people start thinking about something else, I wouldn't know why we shouldn't stay in this business.

Admiral PEET. The policy direction given me is to move that that way.

Mr. PASSMAN. I do appreciate it. I believe you will get another policy direction that may be that all the military, with the exception of possibly training, will go on a loan basis. It makes me feel better to know we are moving in a direction of a business operation and the funds will come back into the U.S. Treasury.

PROPORTION OF REPAYMENTS TO LOANS

Mr. LONG. Aren't we still lending more to these countries each year than we are getting back from them in principal and interest?

Admiral PEET. Yes, sir. I will give you the accurate figure.

[The information follows:]

Estimated fiscal year 1973 collections from repayments against loans financed from the FMS credit accounts were:

	Collected by United States against direct loans	Collected by private banks against guaranty loans	Total
Principal	$197.1	$24.9	$222.0
Interest	56.6	8.9	65.5
Total	253.7	33.8	287.5

Note: Fiscal year 1973 financing of new Foreign Military Sales credit loans was:

DOD direct loans	$331.8
Guaranteed loans	218.2
Total	550.0

Mr. LONG. What are we asking for?

Admiral PEET. We are asking $525 million in new obligational authority for credit this year.

Mr. LONG. So more money is going in that direction than is coming back in this direction?

Admiral PEET. Yes, sir.

Mr. LONG. Is there any reason then why any country ought to default at this point since they are still getting more from us than they are paying back to us in principal and interest?

Admiral PEET. You made that point the other day. I have a hard time following it, Dr. Long, because it differs country by country.

Mr. LONG. Is there any country from which we are getting back more in principal and interest in any year than we are giving to them?

Admiral PEET. I believe there are a number of them.

Mr. LONG. Would you put that down in the record?

Admiral PEET. Yes, sir.

[The information follows:]

STATUS OF FOREIGN MILITARY SALES CREDIT PROGRAMS FOR COUNTRIES NOT PROPOSED FOR CREDIT FINANCING IN FISCAL YEAR 1974

1. There are several countries which have been extended FMS direct or guarantee credits during fiscal year 1950–72, but do not have proposed FMS credit program for fiscal year 1974. Some of these have paid off previous loans completely; others are in process of completing loan payments. All shown below are in current status.

2. Following are such countries which have completed loan payments fully for credit utilization to date.

Country:	*Principal repayment*
Australia	[1] $111.3
Austria	[2] 15.7
Belgium	7.8
Japan	34.8
Mexico	4.3
Netherlands	2.2
New Zealand	1.5
Nigeria	.3
NATO Maintenance Supply Services Agency	16.3
Spain	2.3
Sudan	1.5
Total	198.0

[1] Excludes credit projected for cancellation or not yet utilized.
[2] $2.5 million has not yet been deposited in FMS credit accounts, but is deposited in the U.S. Treasury.

3. Following are such countries which have not completed loan repayments, but which are current in repayments:

Country	Principal repayment (June 30, 1973)	Balance owed (June 30, 1973)
India	$8.9	[1] $1.8
Iran	344.3	159.7
Italy	.3	*
Jordan	12.2	56.8
Liberia	.9	2.2
Pakistan	5.9	4.1
Singapore	14.4	4.6
Sri Lanka	.2	.1
Total	387.1	229.3

[1] Excludes $17,000,000 of credit availability which is under review.
* Less than $50,000.

4. In addition, France ($80.4 million) and Yugoslavia ($1.4 million) had offset agreements which were financed through FMS credit accounts and which are paid fully.

Mr. LONG. I want to know also whether you have scheduled for the future when these countries will find that their interest and principal repayments are much larger than any sum of money that we are currently scheduled to give them, so that the real crunch is going to come at that time?

Admiral PEET. Yes. We are attempting to work that up. You asked for it in a previous session.

[The information follows:]

PROJECTION OF REPAYMENT OF LOANS FOR FMS DIRECT AND GUARANTY CREDIT PROGRAMS, EXCLUDING INTEREST

[Values in millions of dollars]

Country	Unpaid balance as of June 30, 1973	Payments due by fiscal year—											
		1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985–95
Argentina	51.8	9.5	8.5	7.9	7.3	5.7	3.8	3.8	3.4	1.6	0.3		
Australia	[1] 4.3												
Austria	2.5	2.5											
Brazil	62.7	12.1	11.8	8.8	7.1	6.6	6.5	4.3	4.3	.8	.4		
Ceylon													
Chile	36.7	6.5	4.1	5.4	5.3	5.5	5.3	3.6	1.0				
China	172.6	26.2	27.9	27.8	23.7	20.8	2.60	14.1	7.2	3.2	1.1		
Colombia	20.9	3.2	2.8	2.9	2.8	2.9	2.4	2.0	1.9				
Ecuador	.6	.6											
Greece	147.3	10.2	8.6	11.1	18.6	18.6	18.6	18.6	16.6	16.6	9.8		
Guatemala	6.1	.9	.8	.9	.9	.8	.8	.6	.4				
India	[2] 18.8	.9	.9										
Iran	159.7	36.1	42.4	39.0	29.7	12.5							
Israel	1,216.1	88.2	101.9	107.9	110.6	112.0	110.8	110.0	106.5	87.0	47.5	32.5	201.2
Jordan	56.8	8.3	8.1	7.5	7.0	7.0	7.0	6.1	3.5	1.4	.9		
Korea	56.2	2.3	6.5	7.4	7.4	7.6	7.6	7.5	5.6	3.2	1.1		
Lebanon	20.0	3.3	2.4	2.4	2.5	2.4	2.5	1.0	1.0	1.0	1.0	.5	
Liberia	2.0	.3	.2	.2	.2	.2	.2	.2	.2	.2	.1		
Malaysia	24.3	5.4	3.0	3.0	2.8	2.7	2.5	2.4	1.8	.7			
Mali	.5	.1		.1		.1		.1		.1			
Morocco	57.3	10.0	6.9	6.7	6.3	6.4	5.6	4.6	4.0	3.3	2.5	1.0	
Pakistan	4.1	2.5	.6	.5	.5								
Saudi Arabia	56.1	25.9	14.7	15.5									
Singapore	4.6	2.8	1.8										
Tunisia	2.2	.3	.2	.2	.3	.2	.2	.2	.3	.2	.1		
Turkey	35.0	1.6	2.9	4.1	4.1	4.1	4.1	4.1	4.1	4.1	1.8		
Uruguay	5.6	1.5	.8	.8	.7	.8	.7	.3					
Venezuela	39.5	6.9	8.3	8.7	4.8	2.9	2.7	2.4	1.8	1.0			
Zaire	17.8	2.3	3.3	3.3	3.3	3.4	1.5	.2	.2	.2	.1		
Total	[3] 2,282.1	270.4	269.4	272.1	245.9	223.2	203.4	186.1	163.8	124.6	66.7	34.0	201.2

[1] Project cancellation of credit availability.
[2] Utilization of $17,000,000 of credit availability is under review.
[3] Fiscal year totals do not add to overall total due to footnotes [1] and [2].

Mr. PASSMAN. Gentlemen, I am not in a position to say everybody is a crook. I am not going to take that position, to say that everybody is a crook. Under this interpretation, it would be a crook. It simply means as long as you give us more credit, we are going to pay you but we are going to stop paying when you stop giving us credit. What has been the total amount of the military sales credits since its inception? We need to know that at this point.

TOTAL CASH AND CREDIT SALES BALANCE

Mr. VON MARBOD. Mr. Chairman, from the inception, total military sales credits through fiscal year 1972 amount to $3,147,827,000.

Mr. YATES. When is the inception? What is the date?

Admiral PEET. From 1950 through 1972.

Mr. PASSMAN. Let's take the period. Let's take step two. What is the outstanding at this time?

Mr. VON MARBOD. Mr. Chairman, we project that, through fiscal 1973, the amount outstanding for direct FMS credit will be $1,791,300,000.

Mr. PASSMAN. You have actually sold on terms $3,147 million and the outstanding at this time is only $1,791 million. Actually, they have repaid $1,356 million, is that correct? I just want the record straight, that you can't say everybody is dishonest simply because they may buy on credit. Have I stated it correctly for the record, that your repayments almost equal the present outstanding balance?

Mr. VON MARBOD. That is correct, Mr. Chairman.

Mr. PASSMAN. That is it! These same nations, some of them have made cash sales, have they not?

Mr. VON MARBOD. Yes, they have made cash purchases.

Mr. PASSMAN. In addition to the credit sales?

Admiral PEET. Cash sales amount to a sizable figure.

Mr. PASSMAN. Let's get that now. You would have to add to that cash sales.

Mr. VON MARBOD. Cash sales, Mr. Chairman, for the period 1950 through 1972, are $14,998,717,000.

Mr. PASSMAN. That we have received in cash?

Admiral PEET. That is FMS cash sales.

Mr. PASSMAN. If you take the $14 billion plus $3 billion, that is $17 billion. So you have brought back in something like $17 billion or $18 billion in either cash or credits during this period to the same nations and your total outstanding against that aggregate is only $1,791 million.

Admiral PEET. FMS cash sales lead to a substantial volume of commercial sales.

Mr. LONG. How much economic aid have we given over this same period so that we have paid for these arms purchases out of another pocket? While we are getting money back from these countries, we are financing the repayments out of another pocket.

Mr. PASSMAN. Let's take that up with Dr. Hannah.

Mr. LONG. Let's put that in the record.

Mr. PASSMAN. You have brought in something like $17 billion in cash out of military credit sales and cash sales.

Admiral PEET. Yes, sir.

Mr. PASSMAN. The total outstanding against all of this operation, as of this time, is $1,791 million. Is that correct?

NO DEFAULTS ON CASH SALES

Mr. VON MARBOD. It's not entirely correct, Mr. Chairman. The $1,791 million is outstanding on the direct FMS credit. There are also accounts receivable against the $14.9 billion cash sales figure that I mentioned. They run in the neighborhood of $14 billion.

Mr. PASSMAN. Cash between nations is considered to run 18 months, is it not?

Mr. VON MARBOD. They pay under dependable undertakings at such times and in such amounts as we require when we bill them.

Mr. PASSMAN. And they are completely up to date on that account?

Mr. VON MARBOD. They are, indeed.

Mr. PASSMAN. Because it is a cash sale. When it's shipped, they receive the invoices and they pay it?

Mr. VON MARBOD. We have no defaults on the cash sales.

Mr. PASSMAN. Please, gentlemen, if we may, even though I am against certain military, I don't want to say everybody is dishonest. If I go down to the bank to borrow $1,000 for my business, I would hate for the president of the bank to say, "Well, you better let him have $2,000. If you don't, he won't pay the $1,000." Or, "Give him $3,000, or he won't pay the $2,000." I don't move on that basis at all. People are either honest or dishonest.

I think some of these nations have been dishonest, but I would certainly place them in the minority rather than in the majority.

There are no degrees of honesty.

Mr. LONG. I have known some big crooks and some little crooks.

Mr. PASSMAN. Could you place in the record a list of the countries that owe us the $1.7 billion?

Mr. VON MARBOD. Yes, Mr. Chairman.

[The information follows:]

PROJECTION OF FMS DIRECT CREDIT

REPAYMENTS BY FISCAL YEAR, EXCLUDING INTEREST

[Values in millions of dollars]

Country	Unpaid balance as of June 30, 1973	Payments due by fiscal year—											
		1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985–95
Argentina	40.3	6.9	5.9	5.3	4.8	4.5	3.8	3.8	3.4	1.6	0.3		
Australia	[1] 4.3												
Austria	2.5	2.5											
Brazil	50.7	11.3	10.2	7.2	5.5	5.0	4.9	2.7	2.7	.8	.4		
Ceylon													
Chile	36.7	6.5	4.1	5.4	5.3	5.5	5.3	3.6	1.0				
China	117.6	24.4	22.2	20.0	15.8	13.0	12.7	6.2	1.1	1.1	1.1		
Colombia	20.9	3.2	2.8	2.9	2.8	2.9	2.4	2.0	1.9				
Ecuador	.6	.6											
Greece	101.8	5.4	3.8	6.3	13.8	13.8	13.8	13.8	11.8	11.8	7.5		
Guatemala	6.1	.9	.8	.9	.9	.8	.8	.6	.4				
India	[2] 18.8	.9	.9										
Iran	149.7	31.1	37.4	39.0	29.7	12.5							
Israel	891.0	43.7	40.5	46.5	53.6	55.0	68.8	109.0	106.5	87.0	47.6	32.5	201.2
Jordan	55.9	7.4	8.1	7.5	7.0	7.0	7.0	6.1	3.5	1.4	.9		
Korea	56.2	2.3	6.5	7.4	7.4	7.6	7.6	7.5	5.6	3.2	1.1		
Lebanon	20.0	3.3	2.4	2.4	2.5	2.4	2.5	1.0	-1.0	1.0	1.0	.5	
Liberia	2.0	.3	.2	.2	.2	.2	.2	.2	.2	.2	.1		
Malaysia	24.3	5.4	3.0	3.0	2.8	2.7	2.5	2.4	1.8	.7			
Mali	.5	.1		.1		.1		.1		.1			
Morocco	57.3	10.0	6.9	6.7	6.3	6.4	5.6	4.6	4.0	3.3	2.5	1.0	
Pakistan	4.1	2.5	.6	.5	.5								
Saudi Arabia	48.2	18.0	14.7	15.5									
Tunisia	2.2	.3	.2	.2	.3	.2	.2	.2	.3	.2	.1		
Turkey	35.0	1.6	2.9	4.1	4.1	4.1	4.1	4.1	4.1	4.1	1.8		
Uruguay	5.6	1.5	.8	.8	.7	.8	.7	.3					
Venezuela	39.5	6.9	8.3	8.7	4.8	2.9	2.7	2.4	1.8	1.0			
Zaire	2.0	.3	.2	.2	.2	.2	.2	.2	.2	.2	.1		
Total	[3] 1,794.6	197.3	183.4	190.8	169.0	147.6	145.8	170.8	151.3	117.7	64.4	34.0	201.2

[1] Projected cancellation of credit availability.
[2] Utilization of $17,000,000 of credit availability is under review.

Fiscal year totals do not add to overall total due to footnotes [1] and [2].

Mr. PASSMAN. Could you give us a general idea at this time who some of these nations are?

Admiral PEET. Yes, sir.

Mr. VON MARBOD. China owes $117.4 million.

Mr. PASSMAN. I believe you are talking about the Republic of China?

Mr. VON MARBOD. Yes, sir.

Mr. PASSMAN. This is up to date?

Admiral PEET. Yes, as of June 30.

Mr. PASSMAN. This country is one country that gladly made us a loan in the amount of $20 million out of their foreign exchange account. I believe that they are making the greatest progress in the Republic of China of any nation on the face of the Earth. They have a 12-percent adjusted growth in their economy.

Mr. VON MARBOD. That is a statement of fact, Mr. Chairman. China is one nation that is paying us back more this year than we are extending in FMS credit.

Mr. PASSMAN. They are one of our best accounts.

What other nations?

Mr. VON MARBOD. The Government of Israel, as of June 30, 1973, will owe us $887.7 million against FMS direct credit. Iran——

Mr. PASSMAN. It's a wonder you hadn't gotten a lot of applause when you mentioned Israel because I haven't heard anybody in the Congress who is opposed to Israel.

Mr. LONG. I would like to ask some questions.

Mr. PASSMAN. It will be your time in a little while.

Mr. LONG. You just asked if there were any questions and I was about to talk.

Mr. PASSMAN. How about Iran?

Mr. VON MARBOD. Iran, $159.7 million.

Mr. PASSMAN. What has been their total history of payment since we started?

[The information follows:]

The total value of FMS credit (both direct and guaranty) extended to Iran was $504 million. This was authorized in credit agreements between fiscal year 1965 and fiscal year 1969 inclusive. As of June 30, 1973, Iran will have repaid $344.3 million of loan principal, thus leaving a balance of $159.7 million of remaining principal payments. The account is current.

Mr. PASSMAN. Next country?

Mr. VON MARBOD. Korea owes $56.2 million in FMS direct credit.

Mr. PASSMAN. They too are up to date?

Mr. VON MARBOD. Yes, sir; they are.

Mr. PASSMAN. They are one of our best customers now.

Mr. VON MARBOD. Yes. The next country is Argentina, $40.3 million.

Mr. PASSMAN. They are up to date?

Mr. VON MARBOD. Yes, sir.

Mr. PASSMAN. The next country?

Mr. VON MARBOD. Greece, $101.8 million; Turkey $35 million.

Mr. YATES. I have a question.

Mr. PASSMAN. I yield to Mr. Yates.

Mr. YATES. Admiral Peet, when I examined you about the military defense program, I was told that my examination of you was classified. Many of the things that I asked you about I find in the Washington Post today covering your testimony in the Senate yesterday. Why wasn't that classified?

Admiral PEET. Mr. Yates, it was. It was a closed hearing. I didn't reply to you that it was classified. I said the hearings are in executive session, and the record is considered classified until portions of it are declassified.

Mr. YATES. The chap who was sitting behind you on the sofa, you are with the State Department?

Mr. FLOYD. I am with the Defense Department.

Mr. YATES. He said it's all classified.

Admiral PEET. Until after the transcript is reviewed and then a good portion of it is declassified.

Mr. YATES. Was the transcript declassified?

Admiral PEET. Yes, and a statement before Senator Inouye was an unclassified statement.

Mr. YATES. What about the things you asked, Mr. Roush?

Mr. ROUSH. Of course, I was concerned about Cambodia and the secret portion of this document which relates to the number of people in their armed services. I find a clipping which states how many people are in the armed services of Cambodia.

Admiral PEET. The 220,000 figure?

Mr. ROUSH. They give various figures, but they also give what they claim to be authoritative figures.

Mr. TARR. This is based on the Lowenstein report.

Admiral PEET. I don't believe that was in my statement.

Mr. ROUSH. It wasn't in your statement, but how in the world do we let things like that get out then?

Admiral PEET. I wish I knew the answer to that question, Mr. Congressman. We have a difficult time with security.

Mr. ROUSH. I will tell you the truth, Mr. Chairman, had I to do this over again I would have voted against the executive session.

Mr. LONG. I will vote against all executive sessions.

Mr. PASSMAN. Gentlemen, you can always vote your convictions. That is your business. But you can't blame these witnesses, you understand, for leaks out of the Pentagon or the leaks out of the State Department.

Mr. SHRIVER. Or leaks out of the commitee.

Mr. PASSMAN. I have been on this commitee in executive session and we were under oath in years past when we marked a bill to keep the action quiet until we reported. Before I could get to my office I would have a call from a paper wanting me to verify a certain figure. This seems to be true in Government, that you have a lot of leaks. You have had leaks out of the Government. You have had leaks out of the State Department ever since I have been a Member of Congress. Because of the very fact that the Washington Post and New York Times are getting information I don't think we can charge these witnesses with that problem. Neither do I believe we should reveal 20 times the amount of classified material simply because there has been one leak on one item.

Admiral PEET. Mr. Chairman, we have tried to be as forthcoming as we possibly could be. Most of this CPD is unclassified, and it so states. The 1974 figures are unclassified.

Mr. ROUSH. Mr. Chairman, I am not condemning these witnesses, nor am I accusing them of disclosing information. What I am saying is that there has been a leak somewhere, that other people take a different view than we take. I am also saying, Mr. Chairman, that very little of what we have undertaken here by way of hearing, I believe, would fall within a classified classification.

Admiral PEET. That is true.

Mr. ROUSH. This being the case, I would hope, Mr. Chairman, that we might carefully review next year that which is classified, undertake to do that in executive session, but otherwise have open sessions.

Mr. PASSMAN. You are going to find me ready to cooperate. But a lot of the changes put into effect have made a mockery of our processes. You open these hearings up. There haven't been four outside people here since we started these hearings several weeks ago. They are just not interested.

Admiral PEET. Mr. Chairman, this transcript becomes unclassified after it's reviewed.

Mr. PASSMAN. Not all of it.

Admiral PEET. Some of it.

Mr. PASSMAN. You do have certain classified material that you do delete, do you not?

Admiral PEET. Absolutely.

Mr. PASSMAN. Don't use the term "all."

Admiral PEET. I'm sorry, sir, I didn't mean "all," Mr. Chairman. The vast majority of it is unclassified. As soon as the transcripts are reviewed, and the classified portions deleted, the rest of the record becomes unclassified.

Mr. PASSMAN. I will cooperate with the committee. I do know this, that where one piece of information leaks there may be 50 pieces of valuable information that do not leak. I think it's actually a disservice to let all nations know what they are in for in this bill. Because they will say, "You are giving this country more than you are giving us." I have always respected the classified label. I don't even take it out of my office.

But you can't just open the entire thing up because there may be a little leak somewhere. I read in the Washington Post or the New York Times, matters which were revealed in our own hearings, and I didn't know how it got out.

FINANCING

Would you please explain the difference between the requested amount and the total credit sales amount?

Admiral PEET. The difference between the $525 million NOA and the total $760 million credit program is 75 percent of DOD-guaranteed private financing.

Mr. PASSMAN. How about the private financing category?

Admiral PEET. The $313.3 million is the total amount of private financing guaranteed by DOD, but we are only required to obligate $78.3 million to cover this guarantee.

Mr. FORMAN. Mr. Chairman, those are loan agreements signed by the banks themselves with the countries concerned. We guarantee the notes.

Mr. PASSMAN. Is that included in the prior credit sales figure that you gave me?

Mr. FORMAN. Yes, sir. The figures he was giving you included both the direct credits and the DOD guaranteed.

AMOUNT OF CONTINGENT LIABILITY

Mr. PASSMAN. You have a contingent liability of how much?

Mr. VON MARBOD. Through fiscal year 1972, total credit sales were $3.1 billion, of which $2 billion was DOD direct and $1 billion DOD guaranteed.

Mr. PASSMAN. It's all right as long as we have it together. The committee would like to know what your contingent liability is. You can place it in the record.

[The information follows:]

As of June 30, 1973, it is estimated that $487.5 million will not yet have been paid to banks which have made guaranteed loans. Thus, the contingent liability against FMS credit accounts, for guaranteed loans outstanding, would be $487.5 million.

Mr. PASSMAN. I want the record accurate. Let's think in terms of the Export-Import Bank. They finance certain military sales, do they not?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Is that included?

Admiral PEET. No; it is not included.

Mr. FORMAN. No; except that fiscal year 1968 and prior Export-Import Bank loans have been included in figures furnished earlier, providing that these loans were guaranteed from FMS credit.

Mr. PASSMAN. How much is that?

Mr. VON MARBOD. To answer the earlier question on contingent liabilities, Mr. Chairman, the amount outstanding is about $487.5 million. We will have to furnish for the record the outstanding balance of direct loans made by the Export-Import Bank for the purchase of military equipment.

Mr. PASSMAN. Put it in the record.

[The information follows:]

As of April 30, 1973, the Export-Import Bank had authorized a net amount of $2,140.9 million of direct loans to developed nations for the purchase of military equipment in the United States. Of this amount, $1,170.2 million in principal either had been repaid by customers or the loan had been sold to private institutions. Thus, assuming the full amount of all authorized loans is utilized, there is an outstanding unrepaid principal balance of $970.7 million on these loans.

UNOBLIGATED BALANCE

Mr. PASSMAN. I note on page 3 of the justification that you show an unobligated amount of $15.4 million for fiscal year 1972. Could you tell the committee how you were able to come up with an unobligated balance for this fiscal year?

Admiral PEET. In fiscal year 1972, we were able to achieve a $550 million FMS credit program utilizing only $384.6 of the $400 million

new obligation authority (NOA) by exercising, to the maximum extent, section 24 of the FMS Act, "guarantees". We guaranteed $220.5 million of private financing, the major part being for Israel—$150 million, which required only $55.13 million NOA or 25 percent set aside in reserve to guarantee the full amount of private financing.

Mr. PASSMAN. Does this unobligated amount flow back into the Treasury?

Admiral PEET. Yes; the availability of that amount expired at the end of the fiscal year.

Mr. PASSMAN. Do you anticipate that you will have an unobligated balance lapsing in fiscal year 1973 or 1974?

Admiral PEET. We have completed FMS credit agreements to the full amount of the $550 million credit program authorized under CRA for fiscal year 1973. During fiscal year 1973 we had a nearly similar situation as in fiscal year 1972. Although we were authorized $400 million NOA to achieve the $550 million program, we used only $386.4 million. This again was the result of utilizing the guarantee authority in section 24 of the FMS Act. As in fiscal year 1972, the major part of the $218.2 million private financing guaranteed in fiscal year 1973 was $157.5 million for Israel.

If we obtain the total FMS credit program authority and level of appropriations requested, we hope to be able to guarantee $313.3 million private financing, assuming that this amount can be obtained. If a larger amount of private financing can be obtained we will, of course, be able to use less of the appropriation. However, since we have not in the past been able to involve private financing much above $200 million, we hope we are not overly optimistic in planning on $313 million private financing during fiscal year 1974.

PRIVATE FINANCING

Mr. PASSMAN. Also on page 3 you indicate that you have planned to obtain private financing of $313.3 million in fiscal year 1974 whereas this amounted to only $200 million in fiscal year 1973. Do you think you will be able to obtain that much increase in private financing in fiscal year 1974?

Admiral PEET. We are not certain we will be able to obtain $313 million private financing during fiscal year 1974. Much will depend on economic/financial conditions in this country during the period and much also depends upon the potential creditor country. It is true that the most we have had in private financing in the past has been slightly over $200 million and most of this has been for Israel. We are hopeful, however, that we can achieve approximately $300 million in the coming fiscal year.

Mr. PASSMAN. The reason I asked that question is because several years ago we were told that it was difficult to obtain a large amount of private financing. Could you please tell the committee what has changed that situation?

Admiral PEET. In recent years we have been able to obtain a rather substantial amount of credit (up to $157 million) for Israel. More recently credit for Greece and the Republic of China has been available. We believe, although we are not certain, that based on explorations we have made with the U.S. banking community, private financing may

now be obtained for some of the larger Latin American countries and perhaps other countries like Turkey.

FOREIGN MILITARY SALES, FISCAL YEAR 1974

Mr. PASSMAN. You plan to have a total foreign military sales program of $4,688,100,000 in fiscal year 1974, is that correct?

Admiral PEET. Yes, that is the present estimate.

Mr. PASSMAN. Could you tell the committee how that compares to the current fiscal year?

Admiral PEET. We estimate total foreign military sales for fiscal year 1973 at $3,830,300,000. As at the end of the third quarter we have achieved about 90 percent of that total or approximately $3.4 billion. We will come very close to the estimated figure.

Mr. PASSMAN. Would you please break that total down into cash sales and credit sales?

Admiral PEET. The cash portion of the estimated $3.8 billion above the $550 million credit sales during fiscal year 1973 is approximately $3.3 billion.

Mr. PASSMAN. In addition you indicate that $726,525,000 will be provided in commercial sales. Would you please explain this item?

Admiral PEET. This estimate for fiscal year 1974 is based on prior years performance modified by known private negotiations with a high potential of acceptance.

Mr. PASSMAN. Do you coordinate the cash and credit sales program in order to provide some control over the total operation?

Admiral PEET. Yes, we do. All credit sales are closely monitored primarily for the purpose of achieving the maximum political and defense benefit to the United States and secondly to stay within appropriated monetary ceilings.

Mr. PASSMAN. Does the Department of Defense review all the cash sales?

Admiral PEET. Cash sale for Latin America and Africa are managed to avoid surpassing the ceilings established by the Congress in these two regions. Of course all sales, regardless of how they are financed, are reviewed and approved only when they are consistent with the foreign policy interests of the United States and when they meet Department of Defense guidelines which govern military export sales activities. These guidelines are continually under review and reflect the criteria upon which sales proposals are likely to be judged at any given time.

Mr. PASSMAN. How are you able to determine what commercial sales will be made in each year so this aspect of military sales can be considered when reviewing country programs?

Admiral PEET. In accordance with statute, DOD encourages to the extent practicable, the direct use of commercial sources in lieu of FMS for purchase of valid needs. In this context, all elements and agencies of DOD engaged in FMS activities request representatives of U.S. industry to keep appropriate elements of DOD informed as to their planned and actual activities relating to commercial sales. In addition, we receive quarterly reports of deliveries of military items purchased directly from private industry. The estimate we provide to the Congress as to future commercial sales are based on such information.

Mr. PASSMAN. Does the Department of Defense approve commercial sales?

Admiral PEET. The responsibilities of the President contained in section 414 of the National Security Act of 1954, as amended, to control the export and import of arms, ammunition, and implements of war are delegated by Executive order to the Department of State. That Department works closely with the Department of Defense in this function. Through the country desks of ISA, and the Directorate for Strategic Trade and Disclosure, the Department of Defense reviews and recommends approval or disapproval of commercial sales of potential military end use items which appear on the munitions control list.

REPAYMENTS

Mr. PASSMAN. When the credits are paid back to the United States, isn't this money plus interest returned to the U.S. Treasury?

Admiral PEET. Yes; for those FMS credit loans which are financed entirely from the FMS credit appropriation. For those where the FMS credit appropriation guarantees commercial bank loans, this repayment is of course made to the bank.

Mr. PASSMAN. Have you had any bad debt experience in the credit sales program?

Admiral PEET. We have had an excellent repayment record for the program. As of the end of April 1973, we had roughly $2 million of overdue debts, in contrast to receipts of roughly $1 billion in loan repayments since the beginning of the program. We expect that amount to be reduced to less than $1 million by around the beginning of fiscal year 1974.

TERMS OF SALES

Mr. PASSMAN. What are the average terms of these credit sales?

Admiral PEET. Terms depending upon several factors chief among which are the type of equipment financed, the conditions under which it is sold, and, sometimes, the customer nation. As a general rule the interest charge is such as to recover "cost of money" to the U.S. Treasury at the time the sale is consummated, and the length of principal and interest repayments will be 8 to 10 years.

Mr. PASSMAN. Are any countries receiving concessionary terms at the present time or in the past?

Admiral PEET. Yes; a few countries are receiving concessionary rates in the sense that interest charges are less than the current cost of money to U.S. Treasury. Most of these programs involve multiyear financing and it has been our practice to continue interest rates for multiyear programs at the rate initially committed to those programs.

Mr. PASSMAN. Would you please tell the committee what countries these are?

Admiral PEET. During the current fiscal year, 1973, the following countries received FMS credit at slightly concessionary interest rates: ———. During fiscal year 1972, the following countries received FMS credit at slightly concessionary interest rates: ———.

FMS TRUST FUND

Mr. PASSMAN. Would you please explain the foreign military sales trust fund for which there is a budget estimate for contract authority of $3,090 million in fiscal year 1974?

Admiral PEET. The United States has established a separate trust account to account for each country's payments for FMS orders placed under cash terms of sale(that is, under section 21 and 22 of FMSA, amended). The estimate shown in the President's budget represents the aggregate of these separate trust funds. The contract authority line item reflects the estimated new obligational authority to be established in the trust fund during fiscal year 1974. The estimate is based on the total new cash sales orders expected to be received during fiscal year 1974, rather than payments estimated to be received. Aggregate payments estimated to be received during fiscal year 1974 are shown as on the line item "Appropriation to liquidate contract authority" in the value of $2,490,708,000.

Mr. PASSMAN. How does the foreign military sales program relate to this trust fund and what are your duties with respect to trust fund, if any?

Admiral PEET. As noted above, the trust fund is the amount which reflects financial transactions authorized under sections 21 and 22 of the FMS Act whereas the credit sales program (section 23 and 24 of the FMS Act) is financed from the annual FMS credit appropriation. My responsibilities are the same for both portions, in that I am responsible for establishing policies required to manage the entire FMS program.

Mr. PASSMAN. Isn't it true that this contract authority becomes available automatically and there is no action required by Congress?

Admiral PEET. This is correct because it is based upon the contractual agreement of the nation involved to pay all costs of the sale for deposit directly into the trust fund when such costs are due, and thus no U.S. appropriation is required.

EXTENSION OF TERMS

Mr. PASSMAN. I note in the authorization bill that was recently introduced in the House that there is a proposal to extend the terms of the credit sales from 10 to 20 years. Could you tell us the reason for this extension.

Admiral PEET. The reason for the administration requesting the extension of the repayment term for FMS credit from 10 years to up to 20 years is as follows:

Many less developed countries, because of their modest defense budgets, need to stretch repayments over as long a period as possible. Major weapons systems like aircraft, artillery, and ships will be in use by those countries for at least 20 years. If financing is the critical element of the acquisition, and we cannot offer longer term credit, the prospective buyer will turn to other countries who can supply similar defense articles and who can and do offer credit repayment terms of longer than 10 years.

In light of cuts in military grants, this will help countries like Korea and Turkey to spread payments over a longer period of time.

In order to meet shortfalls in military grant, we need more concessionary loan terms.

Mr. PASSMAN. Are there any other changes suggested in the authorization bill that apply to the foreign military credit sales program?

Admiral PEET. There are several other changes that we have requested in addition to extending the repayment from 10 years to 20 years. These are:

1. Requesting a total foreign military sales credit program of $760 million and $525 million in new obligation authority (appropriations) to achieve the total credit program.
2. Requesting the authority to guaranty funds from private foreign sources.
3. Requesting the authority to sell promissory notes without a double charge against either credit ceiling or NOA.
4. Requesting authority to limit the charge against the credit ceiling and NOA for guarantees to the principal. That part of the guarantees that cover interest would not be considered for this purpose.
5. Requesting the removal of the earmarking of not less than $300 million FMS credit for Israel.
6. Requesting the elimination of counting of cash sales against Latin America and Africa ceiling.
7. Requesting to increase the Latin American ceiling from $100 million to $150 million.

ALLOCATION

Mr. PASSMAN. What countries will receive the major part of the credit sales in fiscal year 1974?

Admiral PEET. The major recipients of FMS credits for fiscal year 1974 are:

	Millions
Israel	$300
Turkey	75
Republic of China	65
Greece	65
Brazil	56

These countries account for over $560 million of the $760 million authorization we are requesting. The remaining countries and the amounts of FMS credit for fiscal year 1974 are shown on page 5 of the fiscal year 1974 Congressional Presentation Document.

TRANSITION FROM GRANTS TO SALES

Mr. PASSMAN. Could you please tell the committee what countries are presently in the process of making the transition from grant military aid to the credit sales program?

Admiral PEET. Countries current in the process of evolution from grant to FMS credit are Korea and Turkey.

Korea is still in the early stages of moving from a grant to FMS credit program. Korean grant is proposed to increase in fiscal year 1974 as a result of the 5-year modernization program. The Korean FMS credit program has developed from a zero level in fiscal year 1967 to $25 million projected for fiscal year 1974.

The Turkish FMS credit program has grown from a zero balance in fiscal year 1967 to a projected level of $75 million in fiscal year 1974.

Concurrently, the Turkish grant program is declining as indicated by the request of $89.4 million in fiscal year 1973 versus the $85.5 million request for fiscal year 1974.

The trend toward termination of the grant program will continue in these two countries as they become financially capable of funding an increasing share of their defense requirements. During fiscal year 1973, China and Greece completed the transition from grant military materiel assistance to FMS credit. In subsequent years, additional nations will join these countries in making the transition from grant to FMS credit commensurate with country economic growth and progress.

MALAYSIA

Mr. PASSMAN. On page 5 I note that you list credit sales of $8,550,000 in fiscal year 1972 and $10 million in fiscal year 1973 for Malaysia, but in last year's justification you indicated that there would be no credit sales extended to Malaysia for fiscal year 1972 and fiscal year 1973. Could you please tell the committee why this program was changed from last year's justification?

Admiral PEET. The sale of F–5 aircraft to Malaysia on June 30, 1972, for a total value of $42 million was developed and consummated subsequent to the issuance of the fiscal year 1973 congressional presentation document (dated March 15, 1972). The Malaysians requested FMS credit assistance for financing the procurement and the fiscal year 1974 CPD reflects the funds required during fiscal years 1972, 1973, and 1974 to finance this sale.

TURKEY

Mr. PASSMAN. You indicate also on page 5, that the Turkey credit sales program will increase from $20 million in fiscal year 1973 to $75 million in fiscal year 1974. Can this total increase be attributed to the fact that Turkey is one of the countries that is in the transition from grant aid to credit sales?

Admiral PEET. For the foreseeable future, Turkey will need some form of assistance in maintaining the effectiveness of its armed forces. Our program in Turkey is now shifting from a total grant-aid program to a combination of grant and FMS resources. However, reductions in military assistance for Turkey have delayed the modernization and upgrading of the armed forces of this country. This necessarily affects NATO's collective capabilities on the exposed southeastern flank.

Turkey's ground forces need increased mobility and firepower; its navy is handicapped by the obsolescence of some of its ships and installed equipment; its air force requires replacements for its obsolete F–84 and High-Time F–100D fighter aircraft. The magnitude of current and prospective defense requirements is well beyond that which the Turkish economy, even with the currently favorable balance-of-payments picture, could be expected to absorb. The improvement in the Turkish economy has enabled the Turks to undertake the financing of a significant portion of the costs of modernizing their armed forces. To provide the fiscal balance to modernize Turkey's armed forces,

while maintaining the maximum possible effectiveness of forces in being, a mix of military assistance and Turkish resources will be required.

BRAZIL

Mr. PASSMAN. Also on page 5, I note that you plan to increase the Brazil credit sales program from $15 million in fiscal year 1973 to $56 million in fiscal year 1974. Could you please tell the committee why you are providing this country with such a large amount of credit sales when Brazil is considered one of the most economically developed countries in Latin America?

Admiral PEET. Brazil is the largest country in Latin America, roughly the size of the United States with a population of over 100 million. It has a legitimate requirement for modernization and expansion of its armed forces, particularly its air and naval forces, for purposes of air defense, coastal patrol, border surveillance, and internal communications. At the same time Brazil is expending a high proportion of its budget on internal development and does not have a large surplus for arms purchases. We feel that the amount of credit we propose to offer Brazil is justified in terms of its requirements and the country's budgetary situation.

Mr. PASSMAN. It seems that if Brazil is such an advanced country economically that she would be able to pay cash for this equipment, don't you agree?

Admiral PEET. Brazil has a legitimate requirement for modernization and expansion of its armed forces, particularly its air and naval forces, for purposes of air defense, coastal patrol, border surveillance and internal communications. At the same time Brazil is expending a high proportion of its budget on internal development and does not have a large defense budgetary authorization in 1 single year for arms purchases. We feel that the amount of credit we propose to offer Brazil is justified in terms of its requirements and the country's budgetary situation.

We are satisfied that Brazil is not in a position to pay cash for all of its arms requirements.

CHILE

Mr. PASSMAN. I note in last years justifications that you plan to provide Chile with a credit sales program of $5 million in fiscal year 1972 and also $5 million in fiscal year 1973, but in this years justifications on page 5, I note that you have actually provided Chile with $10 million credit sales in fiscal year 1972 and $12,400,000 in fiscal year 1973. Would you please tell the committee why you have increased the Chile program by such a substantial amount over what was justified last year?

Admiral PEET. The decision to increase the amounts of credit extended to Chile in fiscal year 1972 and fiscal year 1973 was based on several factors. Chile has had and still has a valid requirement for modernization of its armed forces, most of which were obsolete and unsupportable logistically. We wished to retain the traditional relationship between the Chilean and U.S. armed forces, and felt that this

required that the United States should be responsive to requests for sales from the United States. ———.

Mr. PASSMAN. You also indicate that a credit sales program of $10 million will be provided to Chile in fiscal year 1974. Why are we extending credits to Chile in light of her nationalization of United States private investment?

Admiral PEET. Chile has had and still has a valid requirement for modernization of its armed forces, most of which were obsolete and unsupportable logistically. We wished to retain the traditional relationship between the Chilean and U.S. armed forces, and felt that this required that the United States should be responsive to requests for sales from the United States. ———.

TYPE OF EQUIPMENT

Mr. PASSMAN. Could you please tell the committee what type of equipment will be provided by these credit sales?

Admiral PEET. Chile has asked for credit in fiscal year 1974 to procure Air Force and Navy support equipment and for modern tactical communications and support equipment.

U.S.S.R. SALES

Mr. PASSMAN. I notice in a newspaper article that the Soviet Union has also provided credit sales to Chile. Could you please tell the committee what the amount of these sales are and what the terms were?

Admiral PEET. We understand that the Soviet Union has offered credits to Chile for military equipment; however, to date, we understand that they have not accepted any of the credit that has been offered.

TERMS OF SALES

Mr. PASSMAN. What are the terms of the credit sales provided by the United States to Chile?

Admiral PEET. The last credits we extended to Chile were at cost of money to the U.S. Treasury and an 8-year repayment period. The actual interest rate for fiscal year 1973 FMS credit was 6⅜ percent on one portion and 6⅞ percent on another.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. Are the administrative expenses for the cash and credit sales program included under the military assistance program? If so, how much in the way of administrative expenses can be allocated to the sales program?

Admiral PEET. Most of the costs of administering the foreign military sales programs, both cash and credit, are recovered by charging an administrative surcharge to the customer nation. This surcharge normally is 2 percent of the value of goods or services sold. However, certain costs of administering the foreign military sales program at headquarters level are included in the budget for the military assistance program. The budget includes about $800,000 for the Office of the

Secretary of Defense, and about $1,700,000 for the three headquarters of the military departments, for costs relatable to negotiation and administration of the foreign military sales program.

BALANCE OF REQUESTS

Mr. PASSMAN. I note on page 5 that you plan to initiate credit sales programs to quite a few countries in fiscal year 1974 that in the past have not been part of the program. Of the countries that you plan to initiate a new credit sales program in fiscal year 1974 and have in the past been receiving grant military aid, has there been a corresponding decrease in the amount of grant aid we will provide these countries in fiscal year 1974?

Admiral PEET. The country FMS credit program levels portrayed in the fiscal year 1974 congressional presentation document (CPD) are illustrative and reflect current best estimates of probable sales credit requirements during fiscal year 1974. The fiscal year 1973 CPD reflected illustrative FMS credit programs to Saudi Arabia, Bolivia, Mexico, Peru, and Uruguay. Accordingly, the new credit sales programs proposed for fiscal year 1974 are for the Philippines, Thailand, El Salvador, and Honduras. There is a reduction in the amount of grant aid requested for the Philippines and Thailand in fiscal year 1974 as contrasted to the fiscal year 1973 request. Country-by-country comparison is as follows:

[Dollars in millions]

Country	Grant aid request	
	Fiscal year 1973	Fiscal year 1974 [1]
Philippines	$20.8	$19.9
Thailand	60.0	57.2
El Salvador	.8	.9
Honduras	.7	1.2

[1] Includes the international military education and training program to provide valid comparison to fiscal year 1973 grant aid request.

KUWAIT

Mr. PASSMAN. I notice in a recent newspaper article that the United States has negotiated a $500 million arms sales with Kuwait. Is this a cash sales transaction?

Admiral PEET. The negotiations for the sale of various military equipment by the United States to the Government of Kuwait are not yet completed. The Kuwaitis have indicated an interest in acquiring ———. They have requested information from the U.S. Government as to what might be available, what the operational characteristics of available equipment are and the price and delivery times of such items. The requested information has been or is currently being furnished to the Government of Kuwait. We understand that the Kuwaiti Government has requested similar data from potential European suppliers. We anticipate that whatever purchases are made by Kuwait will be on a cash basis.

IRAN

Mr. PASSMAN. I note that we have had a huge cash sales program to Iran for the last 2 fiscal years. Could you please tell the committee why she is buying so much military equipment?

Admiral PEET. Iran's acquisition of military equipment is viewed as a long-term program to satisfy Iranian long-term defense requirements. Since 1965, Iran has been purchasing military equipment from the United States under the terms of the Foreign Military Sales Act and, as you indicate, the pace of acquisition has recently accelerated. The acceleration is viewed as a result of three main factors: Iran's sense that, with the withdrawal of the British from the Persian Gulf in 1971, a period of instability could result; Iran's belief that it needed to modernize its armed forces both to provide a credible deterrent to aggression in the Persian Gulf area and to successfully defend itself if attacked; and the increasing oil revenues which enable Iran to pursue a policy of economic and social reform while also purchasing the military equipment needed for defense requirements.

In addition, it should be pointed out that the actual delivery of the equipment purchased in the last 2 years will extend over several years and, once the equipment is delivered, it will form the foundation for the Iranian Armed Forces throughout the 1970's and into the 1980's.

SAUDIA ARABIA

Mr. PASSMAN. I note on page 5 that you plan to provide a military credit sales program to Saudi Arabia in fiscal year 1974 of $20 million. Isn't Saudi Arabia considered a developed country?

Admiral PEET. Yes; for interest equalization tax purposes Saudi Arabia is considered a developed country.

Mr. PASSMAN. I was always under the impression that the credit sales program was used by the less developed countries to obtain military equipment. Would you please comment on this?

Admiral PEET. The fiscal year 1974 FMS credit program illustratively presented in the congressional presentation document includes only one economically develped nation and that is Saudi Arabia. With this exception, the credit sales program is exclusively for less developed nations.

An FMS credit program for Saudi Arabia is presented since the Saudi Government has found it necessary in recent years to seek deferred payment arrangements for several major military projects. The Saudi financial situation is good and much of the proposed FMS credit sales could be paid in cash. However, it is considered highly important that the United States be able to respond favorably to a Saudi request for credit in order to maintain effective political relationships with this moderate Arab country, to protect U.S. economic interests in Saudi Arabia and to assure continued U.S. access to abundant Saudi oil resources.

GAO REPORT

Mr. PASSMAN. In a General Accounting Office communication to the Secretary of Defense it was noted that the Federal Republic of Germany did not pay the administrative charge on its standard foreign military sales program purchases. It was estimated that the cost

amounting to about $19 million in fiscal year 1972 alone, were not recovered from Germany. Could you please tell the committee if the United States has approached the Federal Republic of Germany about paying these administrative charges?

Admiral PEET. The Department of Defense did not acknowledge the validity of the General Accounting Office finding, particularly with regard to the $19 million estimate. However, we did initiate a special cost study in order to identify the costs of administering the German program. We intend to furnish the completed study to the Department of State during July 1973. The Department of State would have to approach the Germans on this matter, and it has not yet done so.

Mr. PASSMAN. Do any other countries owe the United States for administrative charges on the foreign military sales program or does Germany owe additional funds?

Admiral PEET. All countires except Germany and Canada—the charge to Canada is waived for mutuality of treatment—are paying administrative charges.

TURKEY

Mr. PASSMAN. In connection with the foreign military credit sales program for Turkey in fiscal year 1974 for which you project an amount of $75 million could you please tell the committee what these funds will be used to purchase?

Admiral PEET. During fiscal year 1973, the Government of Turkey bought two squadrons of McDonnell Douglas F–4E fighter aircraft. This sales amounted to approximately $200 million. Turkey needed FMS credit to assist in financing this procurement and the $75 million in fiscal year 1974 is all required for this purpose.

ISRAEL

Mr. PASSMAN. I note you plan to program $300 million in credit sales to Israel in fiscal year 1974. Do you have any estimates what the next fiscal year's request for Israel will be?

Admiral PEET. Israel is an example of a major security assistance success story. Through fiscal year 1973, the United States has extended $1.42 billion in credit to Israel and an added $300 million is being offered in fiscal year 1974. ———.

Israel is entering its sixth successive boom year; its projections for the coming year are the envy of the region: continuing full employment, a per capita GNP of $2.200—fiscal year 1973 GNP officially estimated at $8.74 billion—a reduction in personal income taxes for the second successive year, a real growth in GNP of about 9 percent a year, a one-third rise in foreign exchange reserves—which have tripled in the last 3 years—and continuing heavy contributions from its supporters abroad.

In view of the excellent state of Israel's economic health and the fact that her military modernization program has been completed, it is planned that the fiscal year 1975 security assistance program for Israel will be handled solely on an FMS cash basis. Our planning in the Department of Defense for fiscal year 1975 is to provide any further equipment to Israel on an FMS cash basis.

SALE TERMS

Mr. PASSMAN. What are the terms of credit sales extended to Israel?

Admiral PEET. The terms of credit sales extended to Israel in fiscal year 1973 were in accordance with the Foreign Military Sales Act, as amended, with interest charged at cost of money to the U.S. Government and with repayments to be made within 10 years after delivery of the defense articles or the rendering of defense services. It is expected that fiscal year 1974 credits to be extended to Israel will be at no less than these same terms.

PORTION PRIVATE FINANCED

Mr. PASSMAN. How much of the fiscal year 1974 request of $300 million for credit sales to Israel will be private financing?

Admiral PEET. If we receive $525 million NOA to achieve a $760 million total FMS credit program, as is contained in the administration's request, we expect to secure private financing for at least 50 percent of the $300 million for credit sales to Israel in fiscal year 1974. If we receive less than the $525 million NOA we will be forced to obtain a larger portion of private financing with the impact of higher interest rates for Israel for the entire $300 million program.

COMMERCIAL SALES

Mr. PASSMAN. On page 37 in connection with the program for Israel I note that you list $50 million in fiscal year 1974 for commercial items. Would you please tell the committee what this item is?

Admiral PEET. Israel acquires a portion of her military requirements from commercial sources in the United States. The item of $50 million in fiscal year 1974 for items procured directly from U.S. defense industry would cover acquisition of such things as aircraft and vehicles spares, communications equipment, aircraft and tank engines and spares, and other miscellaneous items of military hardware.

MOROCCO

Mr. PASSMAN. On page 52 in connection with the foreign military credit sales program for Morocco, I note you have allocated $3.5 million in fiscal year 1974 for air defense radar. Could you please tell the committee why Morocco needs such equipment?

Admiral PEET. Requirement for air defense radars has been a long-standing one for Morocco as an integral part of its defensive system against external aggression. The radar would provide Morocco with an early warning capability of approaching aircraft and could also be used to control its own aircraft, particularly during inclement weather.

INDONESIAN REQUEST

Mr. PASSMAN. I yield to Mr. Shriver.

Mr. SHRIVER. Page 18 shows that in nine cases listed in the force data information for Indonesia, the forces in being are greater than force objectives. How much of this request totaling almost $30 million is to

be spent on these nine types of units which already exceed the objectives? Can you break that down by unit?

Admiral PEET. Yes, sir.

[The information follows:]

In the case of Indonesia, the Chief, U.S. Defense Liaison Group, is charged with responsibility for conducting frequent end item utilization inspections to insure that MAP support is limited to selected force elements. With regard to the nine types of units listed as being above objective strengths, fiscal year 1974 MAP support will be provided as follows:

[Classified information deleted.]

From the above, it may be seen that MAP does not support all of the forces in being that are within the stated objectives, and supports none of those in being above those objectives.

SOUTH KOREA MODERNIZATION PLAN

Mr. SHRIVER. You are requesting $309 million for South Korea. This represents more than half of that country's defense budget. It's almost twice the fiscal 1973 program.

Admiral PEET. Yes, sir.

Mr. SHRIVER. South Korea will receive no assistance from other countries, as was in the case of fiscal 1972 and fiscal 1973. So it's all up to us. Is that correct?

Admiral PEET. Yes, sir; it is.

Mr. SHRIVER. You say that this $309 million is the minimum required to continue the modernization plan.

Admiral PEET. The $309 million includes FMS credit.

Mr. SHRIVER. It includes the excess and the credit?

Admiral PEET. That is true, excess and credit.

Mr. SHRIVER. Congress reduced the request for this modernization plan in 1972 and 1973 and yet there has been a lessening of tensions, as I understand, between the North and the South. Will you comment on that and tell us why it's so important in fiscal 1974 to get the modernization plan back on schedule?

Admiral PEET. The modernization plan was designed to give South Korea a capability to deter a North Korean attack with U.S. naval and air augmentation and U.S. logistical support.

We feel that it's important that the South Koreans be able to deal from strength in negotiations with the North.

Mr. SHRIVER. Is there a lessening of tensions between the North and the South?

Mr. TARR. Mr. Shriver, I think that at least cosmetically there is a lessening of tensions. We are not yet sure exactly what these moves mean. We feel quite certain that the North Koreans want very much to be accepted in the United Nations. They have already been accepted in the World Health Organization.

There is a good possibility that their efforts to begin discussions with the South toward the eventual goal of putting the two halves of Korea together are in order to foster some of these things that they want in terms of their foreign relations.

We are very hopeful that the initial conversations can continue to flourish into more meaningful ones. We do feel, however, that there is a better chance for this to happen if the South Korean force is modernized and the South Koreans thereby have the strength to continue on their own without our present backing.

REDUCTION OF U.S. FORCES IN KOREA

Mr. SHRIVER. What has been the reduction in force there?
Mr. TARR. Of U.S. forces?
Mr. SHRIVER. Yes.
Mr. TARR. About 20,000 men.
Admiral PEET. The reduction took place in fiscal 1971.
Mr. TARR. That leaves about 40,000.
Mr. SHRIVER. What is the plan, if any, for further reduction?
Mr. TARR. We have taken the position that we would look again at this matter when the modernization program was completed. I think other than that we have not made any commitment.
Mr. SHRIVER. Is it anticipated that that will be completed?
Mr. TARR. If we are funded at this level for 2 years, it would be completed in terms of the investment items which are the most important.

CONTINUED ASSISTANCE TO PHILIPPINES

Mr. SHRIVER. The justification given for continued assistance for the Philippines ———. That I can understand. What is the justification for the large increase in our security assistance program from 1972 to 1973 while the Philippine Government increased its own defense spending very little?
Admiral PEET. I believe there was $50 million for disaster relief.
Mr. TARR. Yes. Because of the flood on Luzon, we put in that $50 million by a special congressional action. It was put into supporting assistance.
Mr. SHRIVER. It's really not supporting assistance.
Mr. TARR. Frankly, it should have been in a special part of the more traditional AID legislation, but it seemed at the time to be convenient in that emergency to put it in that way.

THAILAND AND SEATO

Mr. SHRIVER. Mr. Secretary, would you again state for the record what our commitment is to Thailand under the SEATO Treaty or any other agreement we may have?
Mr. TARR. I would like to have something prepared for the record on that, if I may.
[The information follows:]

Article IV, paragraph 1, of the SEATO Treaty states: "Each Party recognizes that aggression by means of an armed attack in the Treaty Area [which "is the general area of South-East Asia, including also the entire territories of the Asian Parties, and the general area of the South-West Pacific not including the Pacific area north of 21 degree 30 minutes north latitude"] 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." An "understanding of the United States of America" was appended to the Treaty in which it was stated: "The United States of America in executing the present Treaty does so with the understanding that its recognition of the effect of aggression and armed attack and its agreement with reference thereto in Article IV, paragraph 1, apply only to Communist aggression but affirms that in the event of other aggression or armed attack it will consult under the provisions of Article IV, paragraph 2 [which provides that if 'in the opinion of any of the Parties, the inviolability or the integrity of the territory or the sovereignty of political independence of any Party in the Treaty Area or of any

other State or territory to which the provisions of paragraph 1 of this Article from time to time apply is threatened in any way other than by armed attack or is affected or threatened by any fact or situation which might endanger the peace of the area, the Parties shall consult immediately in order to agree on the measures which should be taken for the common defense'].''

In a communique issued on March 6, 1962, following meetings between then Secretary of State Dean Rusk, and Thai Foreign Minister Thanat Khoman, the Secretary reaffirmed that, in the event of communist armed attack against Thailand, the SEATO obligation of the United States to act to meet the common danger in accordance with its constitutional processes is "individual as well as collective." This did not extend the United States commitment beyond that undertaken in the SEATO Treaty itself. In his opening remarks at the May 20, 1969, meeting of the SEATO Council of Ministers, Secretary of State Rogers said that "we continue to adhere to the Treaty and to regard the Rusk-Thanat Communique as a valid restatement of the responsibilities set forth in Article IV, paragraph 1, of the Treaty."

Mr. SHRIVER. What is Thailand's commitment under the SEATO Treaty with regard to the security of its neighbors?

Mr. TARR. I will have to provide that at the same time.

[The information follows:]

A protocol to the Southeast Asia Collective Defense Treaty designated states and territory to which the provisions of Articles III and IV were to be applicable. It states in part as follows:

"The Parties to the South-East Asia Collective Defense Treaty unanimously designate for the purposes of Article IV of the Treaty the States of Cambodia and Laos and the free territory under the jurisdiction of the State of Vietnam."

"The Parties further agree that the abovementioned states and territory shall be eligible in respect of the economic measures contemplated by Article II."

In 1962 Thailand, along with twelve other nations, signed a "Declaration on the Neutrality of Laos" in which the signing countries agreed to "respect the wish of the Kingdom of Laos not to recognize the protection of any alliance or military coalition, including SEATO." In 1964 the Cambodian government informed the SEATO Secretary-General that it "categorically" refused the protection of SEATO, as provided in the protocol to the SEATO Treaty. A second, similar message was also sent in 1965 at which time the SEATO Council directed the Secretary-General to respond, pointing out that paragraph 3 of Article IV of the Treaty provides that no action may be taken on the territory of a Protocol State without its invitation or consent. The Secretary-General's letter to the Cambodian government stated that "the SEATO members would, of course, respect this provision of the Treaty and the wishes of the Cambodian Government in this context." On March 31, 1970, the Cambodian Ministry of Information announced that "the Salvation Government of Cambodia has never contemplated joining SEATO: Cambodia's attitude remains unchanged and its policy remains one of strict neutrality without participation in any military pact."

While the Department cannot speak for the Royal Thai Government, we assume that Thailand, as a member of SEATO, continues to adhere to all the commitments under the Treaty, including the protocol.

NEGOTIATING FOR PEACE IN CAMBODIA

Mr. SHRIVER. Incidentally, I don't believe it's clear to the American people, or to Members of Congress, concerning who is fighting whom in Cambodia. Would you comment on that?

Mr. TARR. Mr. Shriver, the main thrust of the fighting in numbers of people is the insurgent Cambodians fighting against the forces of the Lon Nol government.

The insurgent Cambodians are in most cases trained by North Vietnamese or by special cadre forces of the Cambodian insurgents who have been taken to Hanoi and trained and then brought back. In some instances the leadership of the Cambodian insurgent forces are provided by North Vietnam officers.

There is also a Vietcong contingent.

Interestingly enough, the insurgent forces apparently all do not follow the beat of the same drummer. There is some disagreement among them which makes it difficult to find one leader with whom negotiations can be carried out. But all that, notwithstanding, at the present time they are all fighting against the Lon Nol forces and that gives them a kind of unity.

Mr. SHRIVER. We are not directly negotiating with anybody from Cambodia at the present time, are we?

Mr. TARR. You mean with the insurgents?

Mr. SHRIVER. Yes.

Mr. TARR. We are not dealing with anybody directly. We are dealing with North Vietnam ———.

UNITED STATES AND THIRD-COUNTRY AID TO CAMBODIA

Mr. SHRIVER. Page 17 of the justifications shows that Cambodia will receive no assistance from countries other than the United States in fiscal 1973 or fiscal 1974. What are the official positions of the other Western-oriented countries in that area, such as Australia?

Mr. TARR. Mr. Shriver, the Australians are not involved in military assistance, but they are in economic assistance.

Mr. SHRIVER. What are they doing?

Mr. TARR. We are the only ones who are involved in military assistance. The contributions of other countries in economic assistance are the following: Japan, $7 million; Australia, $1 million; the United Kingdom, $490,000; Thailand, $250,00; New Zealand, $100,000; and Malaysia, $10,000.

Mr. SHRIVER. All that is less than $10 million.

Mr. TARR. All of that amounts to $8,820,000.

Mr. SHRIVER. What is the official position of New Zealand?

Mr. TARR. New Zealand has been interested sufficiently to make a small contribution of economic aid to Cambodia.

Mr. SHRIVER. No military?

Mr. TARR. No military.

Mr. SHRIVER. Thailand?

Mr. TARR. Thailand has done two things. As I indicated, they have been involved in a small economic program in Cambodia. They also have trained Cambodian troops in Thailand.

Mr. SHRIVER. The Republic of China?

Mr. TARR. I know of no involvement of the Republic of China.

SECURITY ASSISTANCE FOR THAILAND

Mr. SHRIVER. Security assistance for Thailand is increasing almost $40 million, while the Thai defense budget overall will rise only $26 million. Will you comment on that?

Admiral PEET. $20 million of that increase is in military assistance, in addition to which we propose $15 million in FMS credit for that period.

Mr. TARR. Mr. Shriver, another factor involved here is that the program for fiscal year 1973 was not what we had intended it to be, but it was reduced. We operated under the continuing resolution authority.

The year prior in fiscal year 1972 our actual assistance to Thailand,

including all forms of assistance, was on the order of $100 million. This included items that are not shown in the column for fiscal year 1972 on the sheet on page 25.

Mr. SHRIVER. I was talking about 1974. I am not talking about prior years.

Mr. TARR. I realize that, Mr. Shriver, but my point was this: In 1972 when they were covered, primarily under military assistance service funding, the program was about the level of $100 million. Then when it dropped down as low as it did in fiscal year 1973, because of our continuing resolution authority and because we were funded under the Foreign Assistance Act and not under service funding, the people in positions of leadership in Thailand were quite upset saying that our lack of support—military support indicated that we no longer were interested in supporting their programs.

BASE SUPPORT FACTOR IN U.S. AID

Mr. SHRIVER. How long do you figure we will have to continue to support their programs?

Mr. TARR. The level of our programs in Thailand are conditioned by two factors. The most important is that we are using Thailand extensively for base support of our activities.

Mr. SHRIVER. For the defense of the United States?

Mr. TARR. As this base support falls off—for instance, we are using seven air bases in Thailand——

Admiral PEET. A sizable number in connection with our Southeast Asia activity.

Mr. SHRIVER. All that relates to the defense of Thailand, too, does it not?

Mr. TARR. It does to some degree.

Mr. SHRIVER. To what degree does it relate to U.S. defense?

Mr. TARR. To this degree, that we opened two bases when we began to withdraw our forces out of Vietnam. So we are relying much more heavily on Thailand now than we did at the height of our operations in Vietnam.

Admiral PEET. We support Cambodia out of Thailand.

Mr. SHRIVER. I realize that.

We had been fighting the war against North Vietnam out of Thai bases.

Admiral PEET. Yes, sir.

As far as the U.S. defenses are concerned, the relationship is no different than in the case of Indonesia or Latin America.

Mr. SHRIVER. I see.

Admiral PEET. U.S. security interests are served.

Mr. SHRIVER. The statement was that they felt we were not giving them enough.

Mr. TARR. They felt we were not giving them enough, given our heavy reliance on their base facilities.

Mr. SHRIVER. It is for their defense against communism, or North Vietnam, or whatever.

Mr. TARR. I think it is hard to justify all of it as strictly in their defense. I think the Thais feel that they might be able to come to their own arrangements with the people who are antagonistic toward them

much more easily except for the problems that have prevailed in Vietnam itself.

THIRD COUNTRY ASSISTANCE TO THAILAND

Mr. SHRIVER. Let me ask you this: Thailand received in 1973, ——— in third country assistance. Yet according to your justifications, nothing is expected in fiscal 1974 from these other sources. Will you explain that?

Admiral PEET. It is very difficult for us to estimate. We do not know of any for 1974.

Mr. TARR. I do not know where it came from in 1973.

Mr. SHRIVER. Wouldn't Japan be interested in giving them some assistance?

Mr. TARR. There is not a great deal of military assistance that Japan is able to give.

Mr. SHRIVER. How about economic assistance? They are pretty good with electronics. Maybe they need some new radios for their police in Bangkok.

Admiral PEET. It is our policy to try to interest them in providing that sort of assistance.

Mr. TARR. Yes, I think so.

Admiral PEET. We are not always successful.

Mr. TARR. Who was the third country?

Admiral PEET. I will have to provide it.

[The information follows:]

The sources (consisting of military sales) of third country assistance to Thailand in fiscal year 1973 are:

Germany	———
United Kingdom	———
	———
Total	———

THAI OPERATING COSTS

Mr. SHRIVER. In fiscal 1973, 78 percent of the MAP program in Thailand went for operating costs. The situation has improved in the proposed 1974 program. My question is: Why was it so high in 1973?

Mr. TARR. Mr. Shriver, I think the easy answer to that is that the more one scales down the program, the higher the amount will be in operating costs.

Mr. SHRIVER. The less program you have the greater your operating expense?

Mr. TARR. Yes, if the anticipation at the start of the year is that the program will be at a certain level, and then if it is reduced to 60 percent of that level and they already have assumed the higher level, when they make up their military budget, then their tendency will be to put it into operating costs so that they can meet the commitments in their budget.

Admiral PEET. However, our basic policy is to zero out the operating costs in the program.

Mr. SHRIVER. As your programs scale down, the operating expenses should be less not greater, it seems to me.

Mr. TARR. We feel that the appropriate investment for us is not in operating cost but in the equipment that we can transfer.

"ENHANCE PLUS"

Mr. SHRIVER. Concerning Project "Enhance Plus"———

You are replacing ——— F–5A's which the Republic of China furnished for this project with ——— F–5E's.

Mr. VON MARBOD. That is correct.

Mr. SHRIVER. How was that authorization brought about?

Mr. VON MARBOD. The Republic of China on Taiwan provided ——— squadrons of F–5A's, or ——— aircraft. The negotiations conducted to secure the release provided for furnishing ——— F–5E aircraft at a cost of $45.9 million. In addition, we have agreed to return ——— F–5A's to the Republic of China on Taiwan.

Mr. SHRIVER. Page 26 shows ——— in fiscal 1973 for Taiwan for ———.

Admiral PEET. ———.

Mr. SHRIVER. How long have you had that?

Admiral PEET. This is basically an Army weapon which they have had in their inventory since 1969. The U.S. Navy has been working on shipboard installations of this missile during the last 18 months.

U.S. PERSONNEL IN IRAN

Mr. SHRIVER. On page 29, Iran is mentioned as a major security assistance success. MAP material aid, and credit sales have now been terminated. I read recent reports that our military personnel there are growing in number.

Admiral PEET. Yes, sir.

Mr. SHRIVER. How many U.S. military assistance or advisory personnel are now in Iran? How many would you anticipate being there in fiscal 1974?

Admiral PEET. There are numerous U.S. units in Iran. The MAAG is just one of them.

I believe there are something in the neighborhood of 200 U.S. personnel assigned to the MAAG. An increased number will be in Iran as a result of inserting U.S. technical assistance training teams. We reported to each of the committee chairmen in the Congress having an interest in the matter that, as we make sales of helicopters, aircraft, or other equipment, we send in technical teams to do a particular job such as teaching the Iranians how to operate or assemble the equipment. When a team completes its job in 6 months to a year or two, it comes out of the country. The largest number we expect to have in-country at any one time under the current program is something on the order of 500 additional people. Those are military and civilian. We are trying to keep the military to an absolute minimum. Wherever we can use contract personnel, we do.

Mr. SHRIVER. Let me ask this question. There has been a lot of conversation in here about what is classified and what is unclassified. It is this kind of thing that in previous years has been taken from the record because we were talking about what some other country has in the way of defenses. Isn't this what will happen this year in regard to numbers of aircraft of a certain kind we anticipate giving to these countries?

[Discussion off the record.]

JORDAN

Mr. SHRIVER. You mentioned Jordan's loss of subsidies from Libya and Kuwait due to the internal conflict in September 1970. How much did those subsidies from Libya and Kuwait to Jordan amount to?

Admiral PEET. I do not know that. I will provide it.

[The information follows:]

At the itme they were suspended (October 1970), we estimate the Libyan and Kuwaiti subsidies to Jordan amounted to ——— respectively.

Mr. SHRIVER. It is in the justification. I don't know the reason, but it is mentioned. Page 33 shows ——— F–5E's for Jordan in fiscal 1973 and ——— more in 1974. Yet the force data on the preceding page shows ——— fighterbomber squadrons in being in that country while the force objective is ——— squadrons. Would you explain the need for these additional planes?

Admiral PEET. I would have to check with the country director for the rationale for that. Most of the rationale for our program in Jordan is related to her internal security.

Mr. SHRIVER. That is why I wondered why they needed the additional planes.

Mr. TARR. My assumption is they are phasing out old aircraft and they gain enough increased capability with the newer model aircraft to get along with a smaller squadron structure. I will provide it.

[The information was provided to the committee.]

PREPARATION OF PROGRAM JUSTIFICATIONS

Mr. SHRIVER. When are these justifications prepared with reference to these hearings?

Admiral PEET. In some cases, we start almost a year in advance. The information is a good 6 months old in many cases.

Mr. TARR. They are nearly final by January, are they not?

JORDAN AND NEAR EAST STABILITY

Mr. VON MARBOD. With respect to Dr. Tarr's point on phasing out, the Jordanians will be phasing out the F–104 aircraft.

Mr. SHRIVER. While our assistance to Jordan is to increase by $20 million in 1974, that country's overall defense budget will go up only $3 million. There is no third-country assistance, so it is all up to us again. Our allies in Europe also have a large stake in the stability in that area. I am wondering why they are not helping this effort to keep the peace.

Admiral PEET. It is another political program involving political judgment as to what we do.

Mr. SHRIVER. Why is it our responsibility entirely? Why is not Germany or the United Kingdom or Italy or even Japan helping, considering our fiscal and balance-of-payments problems in this country?

Mr. TARR. I think part of our difficulty with respect to Jordan is the awareness on our part that if Jordan became unstable internally, it would make it all the more difficult for Israel and for the continued cease-fire in that area.

I think you are absolutely correct that some of the nations in Europe should have as great a stake in the stability of the Near East as we do.

Mr. SHRIVER. They are pushing us around on the dollar.

Mr. TARR. Exactly. But if they do not have, then still is it wise for us to say that because others will not take part that we should abandon the situation? It would be impossible, I think, for us to abandon our support of Israel. ———.

TURKEY'S CONTINUING NEED FOR ASSISTANCE

Mr. SHRIVER. Page 34 mentions Turkey is now in a promising foreign exchange position. Would you tell us about that?

Admiral PEET. Basically, Turkey's foreign exchange position has improved because a number of Turkish workers have gone to Europe—Germany and elsewhere—and are sending money home. The effect on the Turkish balance of payments has been very significant.

Mr. SHRIVER. I understand that. I talked with Mr. Toner, our AID Mission Director there, who is in town for a few days. But they still have high unemployment in that country.

Even while their men are off in Germany.

Admiral PEET. I have just returned from a trip to Turkey during which I reviewed their situation. You are right. It is still a poor country.

Mr. SHRIVER. Why is it important—and I think we ought to put this in the record—or in the best interests of the United States that we offer military assistance to Turkey?

Admiral PEET. Turkey is the southern flank of NATO and, as the Turks point out, they are located on the border of the Russian Bear. The Bulgarians also appear to them as a great threat. ———. Turkey is a forward defense area for us from the Pentagon point of view. ———.

TURKEY STRATEGICALLY IMPORTANT

Mr. SHRIVER. There has been an improvement in their political situation internally, has there not?

Admiral PEET. Yes, sir. Recently they settled on a compromise candidate. Although he is an ex-Admiral, he is really a legislator and an ambassador. He was acceptable to both parties. I think he is an excellent compromise candidate ———.

Mr. TARR. Mr. Shriver, may I add to Admiral Peet's testimony, in addition to all he said with which I concur, Turkey has some special importance to us in problems that are more a concern in our defense than they are in Turkey's defense. ———.

So Turkey is important geographically as far as our own defense needs are concerned.

Mr. SHRIVER. I further understand that the program that we worked with the Government of Turkey and the people of Turkey for the elimination of poppies which feed our own drug problem has really worked.

Admiral PEET. Yes, sir.

Mr. SHRIVER. Although this is under another type of assistance, I think it indicates that they do keep their word; they do participate and

cooperate with the United States and are worthy of friendly actions toward them.

Mr. TARR. Are their farmers learning how to grow other crops now?

Mr. SHRIVER. Yes, they are. Wheat and feed grains. They have been experimenting with these crops, and successfully so. They are almost self-sufficient.

Admiral PEET. It is a problem for us in Turkey in this regard. We made that agreement, and it is a good one which everyone is supporting. However, while we increased our contribution to Turkey on that hand, we decreased it on another hand through military assistance, and they think it was premeditated.

ADDITIONAL ASSISTANCE TO TURKEY

Mr. SHRIVER. Turkey is to receive $71 million in third-country assistance in fiscal 1974 according to your justifications.

Admiral PEET. Yes, to the best of our knowledge.

Mr. SHRIVER. Could you identify that aid?

Admiral PEET. May I submit that for the record, sir?

[The information follows:]

It is estimated that ——— estimate will be in the form of grants from the FRG. We hold no information as to what this aid will be used for. We do not know whether the remaining ——— will be in the form of credit ———. The contract covering deliveries over several years, has an estimated value of about ———. Therefore, part or all of the ——— may be made available in the form of credit to pay for these items.

Admiral PEET. Most of it comes from Germany.

Mr. SHRIVER. Again in Turkey we see a considerable number of trucks.

Admiral PEET. Yes, sir.

Mr. SHRIVER. Will you provide for the record the total number of trucks included in your worldwide program for the 1972, 1973, and 1974 fiscal years?

Admiral PEET. Yes, sir.

Mr. SHRIVER. Include where those trucks were and are to be purchased.

Admiral PEET. Yes, sir.

Mr. SHRIVER. There are a few members here who would like to know that. We have had this information heretofore. We would be interested in the total dollar cost.

[The information follows:]

The number of trucks programmed under MAP in FY 72 and FY 73 with their dollar values, and our proposal for FY 74 are shown in the chart following. It should be noted that as a general rule within the Department of Defense we first utilize to the maximum extent possible assets on hand in our service inventories. As a consequence many of the listed vehicles were provided as excess at reduced cost. Many others were provided after being rebuilt at US Army facilities. Of those from new procurement, the primary contractors, on the basis of competitive bidding, are the following:

¼ ton truck M151A2—AM General, South Bend, Indiana.
2½ ton truck M35A2—AM General, South Bend, Indiana.
2½ ton truck M600 Series—Diamond Reo, Lansing, Michigan.
5 ton truck M809 Series—AM General, South Bend, Indiana.

[Dollars in millions]

Type	Fiscal year 1972 MAP		Fiscal year 1973 MAP		Proposed fiscal year 1974 MAP	
	Quantity	Value	Quantity	Value	Quantity	Value
¼ ton	5,424	$2.7	1,634	$0.9	3,414	$1.8
¾ ton	604	2.0	142	.6	621	1.4
1 ton	12		4			
2½ ton	6,787	34.1	1,654	4.9	4,597	38.0
5 ton	1,646	1.8	565	.7	1,693	11.7
Other trucks	90	.3	53	.1	8	
Commercial trucks	272	.6	437	1.2	287	1.4
Total	14,835	41.5	4,489	8.4	10,620	54.3

Mr. ROUSH. The committee will stand in recess until we return from the floor.

[Brief recess.]

Mr. ROUSH. The committee will come to order.

CONCERN FOR ISRAEL AND LEBANON

Mr. SHRIVER. Page 37 states that beginning in fiscal 1974 Israel will receive no third-country assistance. Have they received it in the past?

Admiral PEET. We have an estimate of ——— million for fiscal year 1973. I am not sure from what country. ——— I can get that information for you.

[The information follows:]

Admiral PEET. During 1972 military assistance to Israel was provided by West Germany ——— and the United Kingdom ———. The 1973 third country assistance to Israel of ———, million was provided by Italy.

Mr. SHRIVER. Page 38 states the Lebanese Armed Forces and security forces are ill-equipped to face the internal and external threats to security. Would you comment on this?

Mr. TARR. ———.

They have a very serious problem internally. Obviously, once again that relates to our concern for Israel. We feel that they are worthy of some support from us.

Mr. SHRIVER. What is their internal problem?

Mr. TARR. The Fedayeen?

Mr. SHRIVER. The guerrilla forces.

Mr. TARR. Some of them are held rather tightly in camps. They are reasonably well armed.

Mr. SHRIVER. Are they former refugees?

Mr. TARR. They are Palestinian refugees who are held in camps in various spots around the country.

Admiral PEET. They are armed and trained.

Mr. TARR. Yes.

Mr. SHRIVER. I understand this. If we can retain it in the record, it would be helpful.

What other countries are furnishing Lebanon with military assistance?

Mr. TARR. There have been some offers from Iran to assist the Lebanese. Whether any of these have been consummated thus far, I am not sure. My guess is that they have not. Admiral Peet, are you aware of any other countries involved in Lebanon?

Admiral PEET. I am not.

Mr. TARR. That is the only one I know of.

FMS CREDIT FOR SAUDIS

Mr. SHRIVER. The Saudi Arabian Government has large foreign reserves; does it not?

Mr. TARR. Very large.

Mr. SHRIVER. Why, then, do they need FMS credit sales?

Mr. TARR. Mr. Shriver, when we developed this proposal, we thought that the sales from Saudi Arabia would be quite large. We thought also there might be a possibility that they would wish to finance some of these purchases with credit from banks on a government-to-government arrangement. This would require some guaranteed banking from Federal funds. The money is not actually used, but it is simply set aside for a guarantee under the way in which we handled the program.

It is not likely that they will seek to do this. With the reserves that they have, there isn't that much possibility that they will use it. This is why we put the figure in at the time we put the program together.

Mr. SHRIVER. I believe they are also considered a developed country.

Mr. TARR. If they are not, they are becoming that quickly.

Mr. SHRIVER. I mean in your justifications, they are so considered.

ANTICIPATING COUNTRY ALLOCATIONS

Admiral PEET. Yes, sir. However, we had difficulty with the total credit dollar—that is, allocating it country by country. It is very difficult to predict requirements so far in advance; but I can assure you that we are going to need all of that total dollar. In fact, we could have put quite a bit more to effective use this year in the best interests of the United States.

Mr. SHRIVER. What has been your past experience? Has your program varied considerably from what you testified to when you were before this committee?

Admiral PEET. On the FMS credit, we have generally used most of the funds given us. Because we have both a total program restriction and a new obligational authority restriction, we may not use all the NOA when we are able to extend more credit on a guaranty basis.

Mr. SHRIVER. But you haven't switched around too much, have you?

Admiral PEET. Although I have not used all my NOA, I have extended all the credit programed for 1973; and I could program quite a bit more. For example, Taiwan would like to have more. There are several countries around the world that would like more money—that is, credit at the cost of money to the United States.

SAUDI-UNITED STATES BALANCE OF TRADE

Mr. SHRIVER. Page 39 states that the United States enjoys an annual balance of trade of over $200 million in regard to Saudi Arabia. Would you explain that for the record?

Admiral PEET. The Saudis buy much more from us than we buy from them, even including their oil.

Mr. SHRIVER. You call that $20 million for credit sales "National Guard Modernization."

Admiral PEET. We are negotitaing a sizable program with the Saudis right now. They want to modernize their national guard in the country. The King considers the modernization of the national guard of major importance to him. It amounts to about a $300 million program.

Mr. SHRIVER. You have asked for $20 million in credit sales.

Admiral PEET. Yes, sir.

Mr. SHRIVER. Is it like our National Guard?

Admiral PEET. It is difficult to say.

Mr. SHRIVER. I withdraw the question.

Admiral PEET. There are several other programs under consideration for Saudi Arabia; including an F–5 program; and as you heard recently, the President has signed a determination that we would permit sales of F–4's to Saudi Arabia. There is also a naval program for Saudi Arabia which is actually more of a coast guard program than a navy program.

SPAIN AND PORTUGAL THIRD-COUNTRY AID

Mr. SHRIVER. In fiscal 1974 Portugal is to receive ——— million. Could you identify that aid? Is that ———?

Mr. TARR. Just a moment. May I interject? The estimate for third-country assistance for Portugal is ——— million.

Mr. SHRIVER. That is what I was referring to.

Mr. TARR. Who will provide that I don't know.

Mr. SHRIVER. That is what my question was.

Mr. TARR. I don't know.

Mr. SHRIVER. Also third-country assistance of ——— million for Spain.

Admiral PEET. Yes, sir.

Mr. SHRIVER. You don't know?

Admiral PEET. No, sir.

Mr. SHRIVER. Someone wrote this.

Admiral PEET. ———. I don't have that information, but I can get it for you.

[The information was provided to the committee.]

Mr. TARR. May I make a point for the record, that when we say third-country assistance, that may be grant or it may be concessionary sales or it may be a combination of both.

ORIENTATION FOR AFRICAN MILITARY PERSONNEL

Mr. SHRIVER. Page 47 mentions orientation training visits for military personnel from selected African countries. What is accomplished by them? Of what value to the United States is that?

Admiral PEET. The question concerns orientation visits.

Mr. VON MARBOD. During orientation visits, we try to provide a balanced tour to U.S. military installations, and training facilities which will offer participants an opportunity to observe maintenance and supply management courses and other activities of that nature.

Mr. SHRIVER. What is the purpose?

Mr. VON MARBOD. The purpose?

Mr. SHRIVER. Is it a junket?

Admiral PEET. Orientation visits serve several purposes, depending on the country with which we are dealing.

Mr. SHRIVER. Expand on that for the record.

[The information follows:]

Orientation training is generally provided specially selected foreign personnel to familiarize them with specific US equipment, techniques and procedures. Orientation training is conducted in a manner to achieve a maximum learning experience for the foreign personnel who participate. In addition to the purely military objectives to be achieved through orientation, it is intended that, as a result of careful student selection, participation in these tours will serve to enhance mutual understanding, cooperation and friendship between US forces and participating nations. In some countries, we provide orientation tours for classes of their senior military schools. These serve the same purpose as domestic and foreign field tours serve US senior service schools. It provides the student and selected faculty members an opportunity to view military operations using latest equipment based on modern military doctrine, techniques and procedures. It provides an opportunity for foreign personnel to view first hand the magnitude and extent of U.S. defense and deterrent efforts and to put their own capabilities and capacities in proper perspective. Orientation training also provides key foreign personnel with official exposure to the operating levels of the Government, both military and civilian, as well as exposure to US industry and our society in general. Key foreign personnel, who attend their nations' senior service schools and can participate in orientation training, are the prospective leaders of their countries military establishments, and frequently they are placed in positions of considerable power and influence in their governments. In many cases, completion of the countries' major service schools is an absolute prerequisite for assignment to key staff positions and for promotion to flag rank. The value accruing to the US from orientation training cannot be quantified, but it is judged to be one of our most worthwhile and productive efforts.

Mr. SHRIVER. As we are spending taxpayers' money for this, there must be a better reason than just saying it's political.

DECREASING ROLE OF KAGNEW IN ETHIOPIA

Would you describe for the committee, especially for the new members, the role played by the Kagnew communications station in Ethiopia? You got into that a little while ago.

Admiral PEET. Yes; we did. Kagnew has been an important communications station for our Armed Forces, both the Army and the Navy. ———.

Mr. ROUSH. The committee will stand adjourned until 1 p.m. tomorrow afternoon.

WEDNESDAY, JUNE 13, 1973.

AFRICAN PROGRAM REQUESTS

Mr. PASSMAN. The committee will come to order. I yield to Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

When I concluded yesterday afternoon we were talking about Ethiopia and two items in the Ethiopian force data which appear to be out of line. I refer to 11 field artillery battalions and 11 light tank battalions,

while the force objective calls for only one of each type of battalion. Will you comment on that?

Admiral PEET. Yes. We have looked at those data since the hearing yesterday. ———.

Mr. SHRIVER. From which countries will Morocco receive $4 million in military assistance in 1973? Is it a sale?

Admiral PEET. It is $4 million, entirely from France, and it is a sale.

Mr. SHRIVER. So all of those we were talking about before were sales except Germany and Turkey?

Admiral PEET. Yes, sir.

Mr. SHRIVER. What is the justification for your program requests for Tunisia for fiscal 1974? It is more than 2½ times the fiscal 1973 program.

Admiral PEET. A large share of the increase from $2.4 to $6.3 million was for credit sales of about $2.5 million.

Mr. SHRIVER. Sales?

Admiral PEET. Yes, sir.

Mr. SHRIVER. What is the justification for any continued U.S. military assistance program for Zaire?

Admiral PEET. The former Belgium Congo?

Mr. SHRIVER. Yes.

Admiral PEET. Internal security again is the primary reason. We have been making some C–130 sales to that country, and we have substantial interests in the country as does Belguim.

Mr. SHRIVER. Commercial interests?

Admiral PEET. Commercial interests primarily ———.

Mr. TARR. Except for a small training program, it is a sales program.

Mr. SHRIVER. Except for what?

Mr. TARR. A small training program. It is entirely a sales program.

UNITED STATES, FRANCE, AND UNITED KINGDOM IN LATIN AMERICA

Mr. SHRIVER. Do you intend to amend your proposed program for Argentina in view of the recent political developments in that country?

Admiral PEET. I don't know of any proposed changes. It would be a State Department initiative to do so.

Mr. SHRIVER. Dr. Tarr?

Mr. TARR. Mr. Shriver, I think it is a little early for me to make any statement. ———.

Mr. SHRIVER. From what sources will Argentina receive ——— million in third country assistance in fiscal 1974?

Admiral PEET. It is estimated that there will be ——— million in sales from France, ——— million from Germany, ——— million from the Netherlands, and ——— million from the United Kingdom.

Mr. SHRIVER. All sales?

Admiral PEET. Yes, sir. Their business is going strongly European.

Mr. SHRIVER. Why?

Mr. TARR. ———.

Admiral PEET. We also have indications from the Argentine military that they resent having been turned down on some U.S. equipment. As a result they are not looking to us; they are looking to Europe.

BRAZIL

Mr. SHRIVER. On page 66 you say there are no major internal or external threats to political stability and continued economic progress in Brazil, yet you are proposing a program of $56 million in that country for fiscal 1974. This is a large increase over the 1973 level of $16 million. My question is, why?

Admiral PEET. That is entirely FMS credit sales. There are two major sales we are considering right now. One is the F–5 sale and the other the C–130 sale. We are proposing credit for 1974 in the amount of $56 million.

Mr. SHRIVER. What are the sources and types of aid from third countries to Brazil for 1974?

Admiral PEET. Here again, it is primarily from France and the United Kingdom—$——— million in sales from France; $——— million from Italy, and $——— million from the United Kingdom.

CHILE

Mr. SHRIVER. Do you know of Soviet assistance to Chile that has been accepted by Chile?

Admiral PEET. I don't know what they have accepted. ———.

Mr. SHRIVER. The third-country sources in Chile, according to the justification, show ——— million.

Admiral PEET. Yes, sir.

Mr. SHRIVER. From what countries?

Admiral PEET. ——— million in sales from France and ——— million from the United Kingdom.

Mr. SHRIVER. All sales?

Admiral PEET. Yes, sir.

AID TO EL SALVADOR AND HONDURAS

Mr. SHRIVER. The justifications state that neither El Salvador nor Honduras face military threats except from each other, yet we are to continue our military assistance to each of them on a comparable level. Will you comment on that?

Mr. TARR. Mr. Shriver, perhaps I could comment on that. Their problems have been with each other—that is, uncertainty as to what the other would do. We have worked awfully hard through our ambassadors to bring these people together. Part of the uncertainty has been a lack of awareness on one side as to what the military capabilities were on the other. Actually the capabilities are not great on either side.

What we have sought to do was to talk with each country about a very small program for each which would be identical. In addition, Guatemala ———.

So what we have done is to offer the same small program to all three countries with the hope they would be satisfied then that each was protected from the other and they could begin serious discussions. They are getting along better now than they have for the last year and a half. We are hopeful that the situation will continue to improve.

SECURITY ASSISTANCE FOR MEXICO

Mr. SHRIVER. In the justifications at page 67 it is mentioned that ———. We are not forcing them to take this $2.6 million request are we?

Admiral PEET. No, sir, but we are offering them $100,000 in training and $2.5 million in credit.

Mr. SHRIVER. Are they ———.

Admiral PEET. ——— we don't have a grant program.

Mr. SHRIVER. The training would be.

Admiral PEET. Training is a little different. ———.

Mr. SHRIVER. These are credit sales?

Admiral PEET. Yes, sir.

PANAMA CANAL TREATY SITUATION

Mr. SHRIVER. Do either of you know what the current treaty negotiation situation is between the United States and Panama?

Admiral PEET. No, sir; I don't.

Mr. TARR. ———.

It appears that we require a new point of departure in Panama to begin serious conversations. We hope that we can do that.

Mr. SHRIVER. What is the justification for more than tripling the program for Uruguay for fiscal 1974? Their defense need hasn't increased significantly over the last 3 years. Why this increase?

Mr. TARR. The major portion of that increase is in excess defense articles.

———.

Mr. SHRIVER. It has been right along.

Mr. TARR. Exactly. I think this would reflect our concern for the insurgency.

Admiral PEET. A large portion of the $2 million increase is for sales.

Mr. SHRIVER. It is for credit sales?

Admiral PEET. Yes, sir.

Mr. TARR. Then you have $1.8 million in excess defense articles, also an increase.

Mr. SHRIVER. And that is a gift.

Admiral PEET. It is grant aid.

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

Mr. PASSMAN. Thank you, Mr. Shriver.

I want to yield to Mr. Bevill on military.

Mr. BEVILL. Yes, sir.

Mr. Secretary, on Panama at page 57, Latin America security assistance $230,000. I believe Mr. Shriver was asking about the agreement on that. Do we have an agreement expiring on the Panama Canal?

Mr. TARR. Yes, we do. I don't know the exact date for that treaty to run out. A year and a half, I believe.

Mr. BEVILL. But we own the canal; don't we? The United States built it and paid for it, and we own the canal.

Mr. TARR. My understanding is we were granted the use, occupation, and control of the Canal Zone in perpetuity but we do not actually own the land on which the canal is built. I think our treaty that goes back to the Theodore Roosevelt Administration confirms the sovereignty of the Government of Panama to the soil of the Canal Zone. I believe that is the difficulty. Can you help us, Ben?

Mr. FORMAN. My recollection is there is no time limit on the treaty itself. As Dr. Tarr said, however, the treaty does recognize that the Panamanians have what the Secretary of State, about 50 years ago, called titular sovereignty to the canal when and if we ever get out. The problem is not so much that we are working under a treaty deadline of time, but that the pressures of changing events in the international scene is causing us, and has caused us over the past several years, to try to negotiate a new agreement. There is also the problem of the adequacy of the present canal and the possible need for building a sea level canal.

Mr. BEVILL. This situation is continuing to worsen as far as their demands. They want us to turn the canal back to them and get out. That is the effect of their attitude; isn't it?

Mr. TARR. Over the last 3 years the condition has worsened.

Mr. PASSMAN. Will the gentleman yield briefly at this point so I can make a contribution I think to the record for our subsequent consideration?

Mr. BEVILL. Yes.

MEXICO

Mr. PASSMAN. Something was said about Mexico ———.

Admiral PEET. Yes. Mr. Shriver was reading from the justification which indicates we are ———.

Mr. PASSMAN. You mean ———.

Admiral PEET. ———.

Mr. PASSMAN. This committee will serve no useful purpose in another 2 or 3 years unless we do something to bring multilateral organizations under control.

We have actually given Mexico ——— $385 million, and $173 million of it was outright grants. So we see a disappearing program on the surface for Mexico. But listen to this if you will: They have gotten $597,800,000 out of the Inter-American Development Bank. I don't guess they are ——— out of that multilateral organization are they?

Admiral PEET. Apparently not, sir.

Mr. LONG. When I was down in Mexico a couple of years ago, and didn't know all about this multilateral aid, I was quite interested and strongly impressed when Mexicans told me they didn't receive any aid and didn't want any aid.

Mr. PASSMAN. That is right.

Mr. LONG. They said that they wouldn't even take a typewriter if it were sent down to a convent that wanted to use it in its education programs. They wanted to stand on their own two feet.

Mr. PASSMAN. Thank you, Mr. Long.

Mr. LONG. You were telling me how much Mexico is getting in multilateral aid. The same thing happened in Venezuela. They said they weren't getting aid, and it turned out they were getting hundreds of millions in multilateral aid.

Mr. BEVILL. This Panama Canal situation is one which, if I were much more informed on, I would feel better about it. I don't think we ought to give these people anything. We built this Panama Canal. They have come up here and are making demands on us and telling us what we have to do. I predict right now they will get anywhere from half to all they ask for. It seems to me that is too often our policy and I don't agree with that kind of policy. As I say, my knowledge of the situation is very limited. I think we are continually giving—here we are the most powerful nation on earth, and when any little country asks for anything we seem to say we are going to give it to them to make them feel good. That is the impression I get from most of these programs. The foreign aid program has been going on since World War II. It wasn't started as a handout but it is a handout now. We try to buy goodwill I think. You can't buy goodwill or friendship. Here is Panama getting $230,000, just a drop in the bucket, but those people are marching down there and telling us what we have to do and what we haven't got to do. I would like to see the State Department tell them you are not going to get it, you can forget about it, and end it. It would seem to me this would be a more logical approach than slipping them a few thousand, $100,000, and negotiating with them. Since you are asking for the full loaf, we are going to give a half a loaf. This is just a layman's thinking.

I think I am expressing the feelings of my constituents when I say we don't like what has been going on in the Panama Canal Zone, we don't like their policy, and we don't feel like the taxpayers ought to be handing them any money or giving them anything.

Mr. LONG. Will the gentleman yield?

Mr. BEVILL. Yes.

Mr. LONG. I was at the Panama Canal several years ago and had long talks with our Ambassador there and some of the members of their parliamentary body. Right or wrong, they have a somewhat different view of the thing. It is well known of course that we didn't dicker with them over the Panama Canal. We really took it from them under a revolutionary government which made a deal with us. So the thing wasn't done in what you might call arm's length bargaining. They feel strongly about the terms of the lease. But I couldn't find anybody that wanted the canal back for them to run. Maybe they have changed their position on this and you may be more up-to-date than I am.

Mr. BEVILL. It is my understanding they are demanding we yield it back to them.

Mr. LONG. There was talk then, about that. When you talk to them you find out that that isn't really what they want. They want better lease terms, more up-to-date in what dollars are worth. They also want a deal whereby some compensation is made for the profits made by the people running the canal, mostly U.S. people, who make something of a racket out of it, who have their own PX and who own the private economy and lord it over the others. The way they look at it, it is their only asset.

Of course, it would cost billions to build another canal if it was ever made impossible for us to stay there. The Nicaraguan Canal doesn't make too much sense, I understand. Milton Eisenhower talked to me

a long time and said that if we build another canal, we ought to build it in Panama.

It might be in our own self-interest to try to come to terms with Panamanian popular feeling because they do have a point of view. And after you have talked to them, it does make some sense in terms of our national interest.

Mr. BEVILL. Of course, this is a very important thing to the defense of our country. I appreciate what you have said but we could say the same thing about the Indians—we ought to give this country back to the Indians, if you want to take it that way.

Mr. LONG. There aren't very many Indians left to give it back to, but there are quite a few Panamanians.

Mr. BEVILL. I frankly feel we are too soft on these things.

Mr. LONG. I agree about the handouts. I think most of foreign aid is poorly conceived and not in the national interest. But I think that there is another side to the Panama story.

NEED TO TIGHTEN UP AID PROGRAM

Mr. BEVILL. As I say, my knowledge is limited on the details of it. This is the way it looks to me.

I will wind up by saying the foreign aid was started for a very good purpose. As we know, it was to rebuild Germany and the countries we had wiped out, and then we have made it handouts every year ever since. Of course this is getting a little off the subject.

Mr. PASSMAN. We have one rule in this committee. You examine the way you want to, say what you want to, and take all the time you want. So don't surrender your position.

Mr. BEVILL. Mr. Chairman, I would wind up by saying I feel very strongly we need to eliminate these foreign aid programs, that is not what they were created for, and it has become a handout program. We are trying to buy good will and you cannot buy good will, you cannot buy friends. What I am saying is I am anxious to see this program done away with completely and get into the loans, and then on the loans I want us to tighten up and not just make a handout of them. I think this is something that we need to think about and do. I know a year or two ago we were running about $12 billion a year in just handouts.

Mr. PASSMAN. Will the gentleman yield?

Mr. BEVILL. Yes.

Mr. PASSMAN. I want to thank the gentleman for that contribution. I feel the same as the gentleman and I will try with his assistance to switch this program from grants to loans. Already many country leaders have expressed a willingness to accept our aid on a loan basis. You are familiar with it aren't you, Mr. Secretary? This went from President to President to our President and that is what we are going to do—switch it over to a business basis providing we can get the cooperation from all the people involved.

I yield to Mr. Coughlin.

Mr. COUGHLIN. I have no questions right now.

Mr. PASSMAN. I yield to Mr. Roush.

Mr. ROUSH. Thank you, Mr. Chairman.

MOOSE-LOWENSTEIN REPORT

There have recently been reports of the so-called Lowenstein-Moose report. As I indicated the other day, there are varying accounts as to the number of troops the Cambodians have in the field. Your own figure I believe is 220,000.

Admiral PEET. Yes, sir, that is what we are supporting.

Mr. ROUSH. I observe from the account that these vary. The Chief of the U.S. Military Equipment Delivery Team in Cambodia puts the effective strength at 275,700, and the Defense Attaché's Office puts it at 261,518. The Joint Chiefs of Staff briefers put it at 175 to 190,000. The State Department official estimate Cambodian strength is 150,000 and yours is 220,000. Is yours correct?

Admiral PEET. I am not sure which is correct. As a practical matter, it is difficult to keep track of the exact number of troops in Cambodia. I read the article you are referring to. However, I have not seen or read the Moose-Lowenstein report issued to the press, and we got it about the same time.

Mr. ROUSH. Your estimate does not include the payment of phantoms, does it? You don't have included in your figure the phantom soldiers referred to in this article?

Admiral PEET. The phantom soldier issue is one that has been debated for some time and we have made several statements about it. Dr. Tarr has talked at length to this subject.

Mr. TARR. I might be able to answer this question. I have read the report and I have visited with our military equipment delivery team personnel in Cambodia.

One of the problems with phantoms is that until now the Army of Cambodia has operated on a pay system that was inherited from French colonial period, one in which payments were not made by the government to the individual soldier, but instead were made by the government to a commanding officer of a unit who then was responsible for the pay of the soldiers. This obviously leads to the possibility for corruption, and there is evidence that there has been corruption in at least some of the units of the Cambodian Army.

Our personnel have been deeply disturbed by these reports, and accordingly we have been working with the Cambodian Army for some time to perfect payroll practices more consistent with our method of paying, which is from the Government directly to the soldier.

We have developed a system, and it is now installed in two of the five military regions of Cambodia. The reason it is not installed in more places is that we are working with very few people in Cambodia, and do not have the manpower to introduce a wholesale adoption of these methods.

We are encouraged, however, that personnel from the General Accounting Office returned recently and said that in their opinion this will be a satisfactory system, and they are looking forward to the time when it can be adopted for the entire country.

Mr. PASSMAN. We will recess for a vote and if you get back first, Mr. Rousch, you start the committee.

[A brief recess was taken.]

TROOP LEVELS IN CAMBODIA

Mr. ROUSH. The committee will come to order.

Dr. Tarr, did you finish your explanation?

Mr. TARR. Yes.

Mr. ROUSH. Could you tell us the number of North Vietnamese troops in Cambodia?

Admiral PEET. The present estimate is about 8,000.

Mr. ROUSH. This report states 5,000. You feel it is at least 8,000. Is that correct?

Mr. TARR. I think it depends on whether you mean how many North Vietnamese are actually in Cambodia or how many are contributing directly or indirectly to the action against the Cambodian forces.

Mr. ROUSH. Let's talk about the number which are in Cambodia.

Mr. TARR. I think we have been talking about 8,000. But I believe we have to be very careful to interpret these intelligence figures in a way which is justified on the basis of the way in which the information is collected. We really don't know with precision.

Mr. LONG. You didn't conduct a door-to-door census.

Mr. TARR. The flow of people and supplies through northeastern Cambodia makes it almost impossible for us to know precisely how many at any one time are in there.

Admiral PEET. I do not think the figures are inconsistent. Moose and Lowenstein are talking actual combat troops, and I think we are in close agreement that there are between 4,000 and 5,000.

Mr. ROUSH. What would be the size then of the insurgent force?

Admiral PEET. The intelligence estimate is approximately 40,000.

Mr. ROUSH. This same article to which I have been referring speaks of us paying Laotian flyers not to fly. Would you like to speak to that?

Mr. VON MARBOD. Yes, Mr. Roush. Until March 1973, Laotian pilots were paid a combat bonus amounting to about $1.50 per sortie. In March of this year, the system was changed to one by which the RLAF pilots are paid on a monthly basis. The present system provides an incentive pay of $50 per month for fighter pilots and forward air control pilots. All others are paid $20 a month. This method of payment is consistent with systems used in the military worldwide, including our own system. The system does not pay pilots not to fly. On the contrary, it encourages pilots to stay on flight status and to remain proficient.

Additionally, the system obviously eliminates any claim that RLAF strike sorties occasionally flown in response to cease-fire violations might be executed merely to provide bonuses for the pilots. The thrust of the statement in the newspaper attributed to Mr. Moose and Mr. Lowenstein is therefore incorrect.

U.S. CONTROL OF INTERNATIONAL DRUG TRAFFIC

Mr. ROUSH. I would like to turn to another matter here for just a moment. I am concerned with the U.S. policy with regard to the international drug traffic. As I understand the law, the President could, if he saw fit, determine that a country or certain countries had failed to take adequate steps to control the drug traffic of that country, and that if he found they did not, then certain of our, I guess maybe all

of our so-called foreign aid programs including the program for which you are responsible then would terminate insofar as that country is concerned. Do I correctly state that?

What I shall do is read into the record the section of the law as I have it. "Notwithstanding any other provision of the law, the President is authorized to furnish assistance to any country or international organization on such terms and conditions as he may determine for the control, the production of, processing of, smuggling of and traffic in narcotics and psychotropic drugs. The President shall suspend economic and military assistance furnished under this or any other act and shall suspend sales under the Military Foreign Sales Act and under title I of the Agricultural Trade Development and Assistance Act of 1954 with respect to any country when the President determines that the government of such country has failed to take adequate steps to prevent narcotic drugs and other controlled substances, as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970, produced or processed in whole or in part in such country, or transported through such country from being sold illegally within the jurisdiction of such country to the United States Government personnel or their dependents or from entering the United States unlawfully. Such suspension shall continue until the President determines that the government of such country has taken adequate steps to carry out the purposes of this chapter."

Is that your understanding of the law?

Mr. FORMAN. Yes, sir. That is section 481 of the Foreign Assistance Act.

Mr. ROUSH. Have the provisions of this act at any time had any effect on your own activities?

Mr. FORMAN. I don't know of any instance in which the President has made a finding which required the cutoff of military assistance or sales.

Mr. ROUSH. Has the administration or the President through any person in his administration required your particular agency to assist in making any determination that a country has or has not complied with the control of the drug traffic in that country?

Mr. FORMAN. I am not sure if I can answer the question in the way you put it.

Mr. ROUSH. Answer it then as you would.

Mr. FORMAN. The President has established a Cabinet Committee on International Narcotics Control. That Cabinet committee had a working group established as the implementing arm of the Cabinet committee. Underneath that was a coordinating committee and supplementing that were interagency regional committees chaired by the Department of State in which the Department of Defense participated. So through that mechanism, through participation on each one of these tiers from the Cabinet committee on down through the interagency regional committees, the Department of Defense certainly has been participating in the various studies and actions taken to try and control the narcotics traffic.

Mr. ROUSH. Do you have people in various countries of the world where you are making your sales, where you are giving military assistance?

Admiral PEET. Yes, sir.

Mr. ROUSH. Has any requirement ever been laid upon those people to assist in a determination as to whether or not any country is controlling its drug traffic, to your knowledge?

Admiral PEET. Not to my knowledge. They are members of the Country Team in the country, but that would be the responsibility of the Ambassador rather than the military assistance advisory personnel.

Mr. ROUSH. Under the act, counselor, who makes the determination that adequate steps are taken to prevent illegal sales or illegal transportation of narcotics to the United States? Is this the group you spoke of a moment ago?

Mr. FORMAN. Basically there is a relationship between the Cabinet committee and the Secretary of State. They have overlapping functions in this area. But primarily as far as this section is concerned, it is the Secretary of State.

Mr. ROUSH. Do you know whether or not there is liaison with the customs officials?

Mr. FORMAN. The customs officials and the other agencies concerned with narcotics are represented in the groups I have mentioned, sir.

Mr. ROUSH. Do you know reports submitted indicating the source of drug illegally coming into the United States?

Mr. FORMAN. You mean reported to the public, sir?

Mr. ROUSH. Submitted to this Cabinet group you spoke of or to your agency?

Mr. FORMAN. I can't speak personally to that, sir, since I am not one of the members of one of these groups. I do know that they are active and there is full coordination of the intelligence agencies. For example, the Central Intelligence Agency is also represented in the group I have mentioned.

RESPONSIBILITY FOR DRUG CONTROL MEASURES

Mr. ROUSH. I gather from the tone of your answer you feel it is not your responsibility to take any affirmative steps to make a determination on behalf of the President or the administration that a country has failed to control its drug traffic?

Mr. FORMAN. It is certainly not the responsibility of the Department of Defense. It would be the responsibility of the Secretary of State to make such a recommendation to the President. The point I was trying to make is that we along with other agencies of the Government do work closely in this area.

Mr. ROUSH. Is there any showing or proof or any other requirement made of countries receiving training assistance, military assistance, or buying through credit sales that they have in fact undertaken a positive course of action to control their drug traffic?

Mr. FORMAN. Not by the Department of Defense, sir. This section of the act, like the other prohibitions of the act, or other sections of the act imposing prohibitions which make countries ineligible if certain conditions happen, are responsibilities vested in the Department of State, and we look to the Department of State to advise us when those conditions occur. For example, to give you some illustrations, you have various provisions in here with regard to countries whose ships carry cargoes to North Vietnam or Cuba or to countries which expropriate assets of American corporations without paying just compensation. The responsibility for administering those sections, for

making the necessary factual determinations is in the State Department. Until such time as we are advised by the State Department that a country has not met one of these conditions, and is therefore ineligible, we proceed on the basis of the standing eligibility of the country.

Mr. ROUSH. That has never happened?

Mr. FORMAN. In the narcotics field?

Mr. ROUSH. Yes.

Mr. FORMAN. As far as I know, it has never happened.

Mr. ROUSH. Do you know which countries of the world are or might be the source of narcotic drugs which are coming to the United States? Has any determination been made or list compiled of countries of the world which or might be the source of narcotic drugs coming into the United States?

If you don't know say so.

Mr. FORMAN. I don't know from my personal knowledge. I have read that the greatest source of opium production is the so-called Golden Triangle in Southeast Asia; Turkey; and to some extent Afghanistan.

Mr. ROUSH. Recently in my local papers appeared an article concerning Afghanistan, in which it was pointed out that aid which had been given to Afghanistan to reclaim land had resulted in the land being used for the production of poppies, which reaped a rich harvest for those farmers. Apparently no action has been taken except to deplore this condition.

Let me make something clear here. I am not trying to trap you all into anything here. I am merely laying the groundwork here for legislation which I think will be appropriate at a later date. I would be asking the same questions of other people who appear before this committee, and I am trying to establish a record here. These questions are not intended to embarrass you nor are they intended to put you on the spot in any way. I realize that you follow policy. I also realize that you follow the directions that are given to you, but I am trying to lay the groundwork here for questioning which will occur later on this same subject and will result in questions being propounded to other witnesses.

Does anyone else want to comment before we take a recess?

Admiral PEET. We want to be sure that you understand we are concerned about it. We want to be sure that we are complying with the law. We think that we are in every respect.

Mr. FORMAN. I want to make it clear, sir, that I have tried to be as responsive as I could in my answers, and the reason you are not getting better answers or answers which are more satisfactory to you is that the personnel who are present here today are not the personnel who are involved in the narcotics control program.

I assure you that other witnesses who will be here will be better able to speak to that.

Mr. ROUSH. I understand that. I am merely trying to find out whether or not you have been the recipient of any directions from those who are responsible for the narcotics control program or whether you have in any way participated in any affirmative action which has resulted from a determination being made under this particular section of the law I cited.

You have told me that you are not.

Admiral PEET. That is correct.

Mr. ROUSH. I am satisfied that you have given me a truthful answer. I had to get that on the record.

We will take a brief recess now.

[Brief recess taken.]

U.S. SUPPORT OF LAOTIAN TROOPS

Mr. LONG. The committee will come to order.

We have already had a question from Mr. Roush about paying Laotian pilots not to fly combat missions. If there is a ceasefire agreement in Laos, why is the United States budgeting $107 million for Thai irregular troops?

Mr. VON MARBOD. I believe you are referring to the $107 million that is in the Defense budget to support the special guerrilla units during 1974?

Mr. LONG. Yes.

Mr. VON MARBOD. The support of those forces will continue because they are the most valuable bargaining chip we have for bringing about the withdrawal of the North Vietnamese forces that are present in that country. The cease-fire provides that these forces be withdrawn 60 days after the formation of the provisional government.

Mr. LONG. 15,000 to 20,000 in the regular forces.

Mr. VON MARBOD. Yes, sir.

Mr. LONG. What are these irregular forces?

Mr. VON MARBOD. They are light infantry and light artillery.

Mr. LONG. What do you mean by irregular? Mercenaries, hired soldiers?

Mr. VON MARBOD. Yes, sir, they are hired and paid. They are all volunteers.

Mr. LONG. Volunteers out of patriotism or for dollars?

Mr. VON MARBOD. I cannot answer that, Dr. Long.

Mr. LONG. I wonder whether the effectiveness of mercenary troops has been high?

Mr. VON MARBOD. This particular force is very effective.

Mr. LONG. You say 60-day period. How much of that 60 days has elapsed?

Mr. VON MARBOD. None, Dr. Long. The provisional government has not been formed.

Mr. LONG. Who are the people, that these irregular forces whom we are paying, are fighting against? What is the threat in Laos?—the North Vietnamese, or is it Communist Laotians, or who?

Mr. VON MARBOD. Prior to the January 27 accords, they were engaged with North Vietnamese and Pathet Lao forces.

Mr. LONG. Can you give us some figures on the numbers on each side?

Mr. VON MARBOD. I can provide that for the record.

[The information follows:]

FRIENDY AND ENEMY FORCES IN LAOS

There are two categories of friendly forces in Laos: Laotian forces, both regular and irregular, and Thai irregular forces. The totals in the various categories are as follows:

Laotian Regular Army Forces	48,000
Laotian irregular forces (integrated with the regular forces now)	18,000
Laotian Air Force	2,050

River flotilla	330
Neutralist forces (who side with the Royal Laotian Government)	5,800
Total	74,180
Thai irregular forces	7,330

Enemy forces present in Laos are estimated as follows:

North Vietnamese Army Forces	61,610
Pathet Lao or Lao Communist	29,665
Neutralist forces (who side with the Communists)	1,725
Total	93,000

In addition, there are approximately 30,000 Chinese forces along the major Chinese road system in northern Laos.

Mr. LONG. You cannot give us any idea of what we are up against in Laos?

Mr. VON MARBOD. I can provide that for the record.

Mr. LONG. It would be helpful if we knew it now.

Admiral PEET. Assistance to Laos and Vietnam is in the Defense budget. It is not covered by the Foreign Assistance Act.

SECOND PARIS PEACE ACCORD

Mr. PASSMAN. I don't want to interfere, but if the distinguished gentleman would yield, I understand that they have reached an accord in Paris and there would in all probability be no more Laotians fighting or South Vietnamese fighting and the things we traded for and President Nixon traded for have come to pass.

Admiral PEET. I heard it was signed at 11 o'clock this morning.

Mr. PASSMAN. It looks like a good, solid peace that we have prayed for has come to pass.

Thank you, Dr. Long.

Mr. LONG. How long do you think this peace will last?

Mr. PASSMAN. The record looks mighty good if you look at what we turned over to Mr. Nixon and what he has given to us. I don't want to be a hero worshipper, but he has done a commendable job and under very difficult circumstances. It looks like we got something permanent.

Thank you, Dr. Long.

Mr. LONG. We have had peace for a great many months in Vietnam but the fighting still goes on.

Mr. PASSMAN. Not with our men. Ours are home.

Mr. LONG. But we are still paying for it. Money continues to go in there.

Mr. PASSMAN. We are paying only a small amount of what it cost us 4 years ago.

U.S. PRESENCE IN VIETNAM

Mr. LONG. The thing is that quite aside from that, we have about 15,000 civilian advisers in Vietnam, do we not?

Mr. VON MARBOD. They are not advisers. Counting all U.S. personnel in Vietnam now—military, DOD civilians and civilian contract personnel—there are only about 5,000.

Mr. LONG. What are they?

Mr. VON MARBOD. Basically, they are logistics personnel.

Mr. LONG. Technicians?

Mr. VON MARBOD. Logisticians.

Mr. LONG. All right. The point is, we still have American nationals who are in Vietnam. We still have a war going on in Vietnam. And we are still paying large sums of money. I wonder——

Mr. VON MARBOD. There are roughly 5,000 and they are primarily——

Mr. LONG. What?

Mr. VON MARBOD. U.S. national civilians. Not military but civilians and——

Mr. LONG. Where?

Mr. VON MARBOD. In South Vietnam.

Mr. LONG. How many do we have in Laos?

Admiral PEET. Laos is not a part of our program. We don't have those figures.

Mr. LONG. You don't carry that?

Admiral PEET. No, sir.

Mr. PASSMAN. You don't have anything to do with Vietnam either?

Admiral PEET. No, sir, neither Vietnam nor Laos.

Mr. PASSMAN. I brought this in because it was great news. I didn't think the doctor would mind my interrupting to get this before you.

Admiral PEET. Our estimates for Cambodia may be changed because the assumptions are considerably different, given the signing of that treaty or accord.

Mr. PASSMAN. Signed at 11 o'clock this morning.

Mr. LONG. You say the same thing in Cambodia, there is no——

Admiral PEET. Cambodia is a MAP country.

PAYMENT OF CAMBODIAN SOLDIERS

Mr. LONG. What portion of our military aid to Cambodia goes for salaries of Cambodian soldiers?

Mr. VON MARBOD. None of the military assistance program dollars go for pay of personnel.

Mr. LONG. How are these people paid? Defense?

Mr. VON MARBOD. No, they receive support through local currency arrangements that Dr. Tarr spoke about earlier.

Mr. TARR. Mr. Long, perhaps I could help on that. They are paid from the budget of the Cambodian Government. Their budget in turn is supported by the revenue that comes in part from the sale of commodities that are made available under our commodity import program.

Mr. LONG. Play that over slowly.

Mr. TARR. All right. Perhaps some figures would help.

In 1972 the total expenditures of the government were $193 million.

Mr. LONG. What government?

Mr. TARR. Of the Cambodian Government. This would include payments——

Mr. LONG. Salaries?

Mr. TARR. Salaries of Cambodian soldiers.

In that period our contribution to the commodity import program was $16.5 million. These would be commodities that were purchased with U.S. dollars. The commodities were made available to the Cambodian Government. The Cambodian Government sold the commodities on the market and used the proceeds from the sale to support the——

Mr. LONG. What commodities were involved and how did they come from the United States to Cambodia? The American taxpayer didn't give them money but commodities, which they then converted into money. Is that right?

Mr. TARR. That is correct. I am sorry that I cannot tell you what commodities were involved in that year.

Mr. LONG. Can you put that in the record?

Mr. TARR. Yes, sir.

[The information follows:]

TYPES OF COMMODITIES FUNDED BY CIP

In FY 1972 the AID Commodity Import Program for Cambodia expended funds for the following categories of commodities:

Petroleum and Petroleum Products; Natural or Manufactured Gas; Chemical Elements and Compounds; Dyeing, Tanning and Coloring Materials; Essential Oils, Soaps and Cleansing Preparations.

Synthetic Resins & Plastics Materials; Chemical Products & Materials; Rubber Manufactures; Wood and Cork Manufactures; Paper and Paper Manufactures.

Textile Yarns & Articles; Nonmetallic Mineral Manufactures; Nonferrous Metals; Manufactures of Metal.

Machinery, Other Than Electric; Electrical Machinery, Apparatus & Appliances; Transport Equipment.

Lighting Fixtures; Professional and Scientific Equipment; Transportation, Insurance & Other Charges.

Mr. LONG. Are these commodities coming from our military aid program?

Mr. VON MARBOD. No, sir, they are not.

Mr. LONG. Where do they come from?

Mr. TARR. They would be things like agricultural products, petroleum, perhaps some——

Mr. LONG. What budget do they come out of?

Mr. TARR. They come out of the supporting assistance budget, which is part of the Foreign Assistance Act.

Mr. LONG. I should have said, what proportion of our military and economic aid to Cambodia goes for salaries of Cambodian soldiers?

Mr. TARR. The answer would be indirectly because of this commodity import program in 1972, $16.5 million out of that total budget of $193 million.

The reason I use the $193 million is that is the latest figure that I have for their government finances. Our program in commodity imports went up substantially in 1973 to $45.6 million, but I don't know what their government budget was in this the same year.

Mr. LONG. I no longer understand, if I ever did, what you really meant. You are talking about $193 million. That is paid out, all our military and economic aid to Cambodia?

Mr. TARR. No. $193 million were total expenditures of the Cambodian Government in the year 1972.

Mr. LONG. Everything?

Mr. TARR. For everything. That is the latest figure I have.

Mr. LONG. That was not my question. What I want to know is how much economic and military aid have we given to Cambodia and how much of that goes for salaries of Cambodian soldiers.

Mr. TARR. Mr. Long, I will read these figures into the record. In 1972 we provided $178.1 million in our military assistance program; $37.1 million in our supporting assistance program; $1.9 million in

our training program. In 1973 we provided $142 million in our military assistance program, $68 million in our supporting assistance program, and $4.7 million in our training program.

Mr. LONG. Roughly the same amount in toto?

Mr. TARR. Yes, sir.

Of these $37.1 million in the supporting assistance program in 1973, $16.5 million was in commodity imports, which helps to support their government expenditure.

Mr. LONG. I am trying to find out how much of this aid went for the salaries of Cambodian soldiers.

Mr. TARR. I cannot give you that figure.

Mr. LONG. We are trying to investigate this phenomenon of phantom units and salaries pocketed by Cambodian officers to get some feeling for how much we are paying out in money that does not go to accomplish the purpose for which it is intended.

Mr. TARR. Mr. Long, I am sorry but I don't have available the information that you want. I would have to provide that for the record.

[The information follows:]

SUPPORT FOR CAMBODIAN MILITARY BUDGET

Commodity imports (including PL 480) are provided through the Economic Assistance Program and generate local currency. In FY 72 these funds covered about one-third of the $106 million military budget; the rest was funded by borrowing by the GKR. The attribution of counterpart generated by the Assistance Program to military pay and allowances is more symbolic than real. Currencies generated could have been attributed to the civil budget with the funding for the military budget coming from the loans.

ELIMINATING CAMBODIAN PHANTOM TROOPS

Mr. LONG. What do you propose to do about this problem? I understand that the phantom soldiers—or "ghost army," as they have been called—number roughly half of the soldiers for which we are paying.

Mr. TARR. Mr. Long, what we intend to do about it is what we have already started to do about it; that is, to revise the practices by which members of the Cambodian Army are paid. As I explained earlier when you were not here, the Cambodian Army heretofore has been paid under the French colonial system, whereby the commander and not the individual soldier was paid by the Government and then it was the commander's responsibilty to pass that money on.

Obviously in some cases it was not passed on in a very effective manner with respect to indigenous soldiers.

Mr. LONG. Was that always true?

Mr. TARR. It certainly could have been.

Mr. LONG. Is that why the system originated?

Mr. TARR. The logic for the system in the first place. We have developed a system which is similar to our system of payment which goes from the Government to the individual soldier and it is now being used in two of the five military districts of Cambodia. The General Accounting Office recently made a survey of the system which now is operating, and they have concluded that it will be an effective means for elimination of this problem. One of the difficulties that we have

had in trying to institute this system on a more rapid basis is that we are limited to 200 Americans in Cambodia by law at any one time. Thus we have not been able to bring in as many people as would be required for an immediate transition of the whole Cambodian Army to this system.

PURPOSE OF F–5E DEVELOPMENT

Mr. LONG. Is it true that the Northrup F–5 fighter jet sold to many developing countries is not used by the U.S. Armed Forces at all but produced exclusively for export?

Mr. VON MARBOD. That is not correct. The F–5E was introduced into the Defense budget not only to support the foreign sales but also as part of the military assistance service funded program—as part of our Vietnamization efforts in South Vietnam.

Mr. TARR. The point, Mr. Long, is that we do not anticipate that it will be used by active U.S. forces, although the prototype aircraft was first developed as a training plane for the U.S. Air Force.

Mr. LONG. What I am asking is, Are not these planes produced as a commodity for sale? General Motors does not produce any automobiles, to speak of, which are used by General Motors. They produce cars to sell and make money on. What we are trying to find out is, to what extent is this country producing arms to make money?

Admiral PEET. I am sure Northrup expects to make money on the F–5 aircraft.

Mr. LONG. I am talking about our aircraft. The State Department keeps talking about our precarious balance of payments, which is another way of saying, "Make money on these arms, get some dollars." That is why anybody wants to sell anything—to get dollars.

Mr. FORMAN. The F–5E aircraft was not developed at the initiative of the Department of Defense; it was done at the initiative of the Congress of the United States. The funds for the development of that aircraft, research and development, were inserted in the Department of Defense budget at the specific instigation of the House Armed Services Committee. The Department of Defense had not gone to the Armed Services Committee and asked for that money. The Armed Services Committee decided that a new airplane was needed to replace the aircraft which was in the inventory of our friends and allies, which was becoming out of date, that a less sophisticated aircraft was needed by these countries, one that would be simple, easy and less expensive to maintain and also one that was needed when we pulled out of Vietnam. It was at their express direction, which was later concurred in by the Senate, that the aircraft was built. It was done pursuant to a directive of the Congress that it be done as a result of the flyway competition between manufacturers as to which would be the aircraft selected.

Mr. LONG. You feel Congress was really responsible for producing planes to sell abroad and make money?

Mr. FORMAN. In the case of that aircraft; yes, sir.

Mr. LONG. I have no doubt you are right. If there are inequities, I am sure Congress is in up to its ears. I don't think it could have gone on all this time with just the administration and the State Department carrying on. I know that an awful lot of Congressmen

have a mistaken idea that these arms sales somehow promote the glory of the United States when we make money by selling weapons. We can always find a way to justify that.

U.S. ARMS SALES HELP CREATE STABILITY

A Christian Science Monitor article of May 29, 1973, reports figures on arms sales which show the United States to be the largest supplier of arms and munitions in the world. From 1961 to 1971, U.S. arms exports were $22.8 billion. The closest competitor for the same period was Russia, with $14.8 billion. Protected U.S. arms sales for fiscal year 1974 are $4 billion.

Is this true? Is the United States the largest supplier of arms and munitions in the world for export?

Admiral PEET. Yes, sir.

Mr. LONG. Do you feel that this is an appropriate role for the United States?

Admiral PEET. Given the circumstances that exist in the world today, I do, sir.

Mr. LONG. Just how does this solve the problems in the world today? Do you feel that if there is a demand it is our job to supply it—is that it—without trying in any way to restrain that demand?

Admiral PEET. In my mind, it is a very simple situation, if you don't have stability in the world, you won't make any progress. With stability you may or may not, but at least you have a chance.

Mr. LONG. Tell me how selling $22.8 billion worth of arms and being the largest arms supplier in the world promotes stability.

Admiral PEET. It enables countries to maintain stability and keep their governments functioning, instead of having utter chaos.

Mr. LONG. I hear what you say, but tell me how that is done.

Admiral PEET. It depends upon the situation in any given country. Some of them have internal problems, insurgency problems.

Mr. LONG. Do you know of any countries that have used these arms to keep insurgents from taking over? We have had a number of countries in recent years that have been taken over by insurgents.

Admiral PEET. Yes, sir.

Mr. LONG. In any case, have arms helped prevent those takeovers?

Admiral PEET. I cases where they have taken over, obviously they have not.

Mr. LONG. We have had about a dozen countries in Latin America taken over by insurgents. Of course, when the insurgents takeover they have the weapons, don't they?

Admiral PEET. Yes, sir.

Mr. LONG. Does that promote security, stability?

Admiral PEET. It is not an ideal world. I would have to evaluate it country by country as the State Department does. Let me make clear that the decisions are not made by the Defense Department. You are asking someone who does not have control over such decisions.

NEED TO MAINTAIN U.S. INFLUENCE

Mr. LONG. You have told me a disturbing thing—that the United States, which I like to think is a good country, is selling half again as many weapons, instruments of death, to the world—and to poor countries—as Russia. Most of us were brought up to believe Rus-

sia is a bad country; that they wear the black hats. You tell me that these arms sales promote stability. Would you agree that when Russia sells large amounts of arms to the world, that those sales also promote stability?

Admiral PEET. From her point of view, I suppose it does. In the sections of the world where they have influence, we are trying to maintain a balancing influence. I would rather we have the influence than the Russians. I think that is our choice. Either they do it, or we do it.

Mr. LONG. I can name many, many countries taken over by insurgents even though we sold them a lot of weapons. Can you name any country that used the weapons we sold them, high-powered weapons, to prevent insurgents from taking over?

Admiral PEET. That is what we are doing in Vietnam right now.

Mr. LONG. Have we been very successful?

Admiral PEET. I hope if the report that the Chairman has given us is true——

Mr. PASSMAN. If the gentleman would yield—wouldn't that apply to Korea and Taiwan?

Admiral PEET. Yes, sir. There are many countries in that category.

Mr. PASSMAN. Many countries where in all probability our aid prevented a Communist takeover?

Admiral PEET. Yes, sir.

Mr. PASSMAN. That being true in Turkey and Greece?

Admiral PEET. Yes, sir, the history of the program is replete with successes.

Mr. LONG. If we are promoting stability and doing good by the world by selling $22.8 billion of arms, then Russia is doing good for the world by selling $14.8 billion; is that right?

Admiral PEET. According to that criterion, we are doing better; and I hope we continue to do so. ——— I would rather have them under our influence than under Russian influence.

Mr. VON MARBOD. The $22 billion figure, Dr. Long, includes sales to NATO members—Germany, France, United Kingdom, Belgium, Italy, Netherlands, Norway, Denmark, Greece, and Turkey and also to Japan. These sales are for valid self-defense needs of our partners.

U.S SPHERE OF INFLUENCE IN SOCIALIST COUNTRIES

Mr. LONG. Do you feel that that is true of Chile and Argentina, Peru, Bolivia?

I come back to this question of helping our friends and guarding against our enemies. We have two countries in Latin America ———, Peru and Chile. I notice that we have sold them or propose to sell them more weapons this year ———.

Admiral PEET. Yes, sir.

Mr. LONG. ——— which countries are relatively friendly to us. Explain that.

Admiral PEET. Yes, I think I can.

Purchases by those countries have been limited for reasons with which you are familiar. They are at the point where they feel they have to purchase, and they are going to purchase. I still have hopes ——— I think that is better than being under Russian influence.

Mr. LONG. Isn't it hard to explain, even to yourself, why we are selling weapons to countries that have gone Socialist, to countries that have confiscated American weapons and incurred the deep displeasure of American taxpayers, and why we propose to sell these countries more weapons this next year instead of selling arms to the countries that border on them which have been friendly and represent no Communist or Socialist threat?

Admiral PEET. Again I have to make a case-by-case evaluation.

Mr. LONG. That is what I am trying to do.

Admiral PEET. According to the morning paper, you will find the military in Chile has joined the cabinet again.

The military in Chile is desirous of buying American equipment.

———.

Mr. LONG. Then by your criterion, when a country goes Communist or Socialist, we reward them by helping them even more than we do when they remain more alined to our system. Is that right?

Admiral PEET. No, sir; I don't necessarily consider it a reward when we advance credit at the cost of money to the United States.

Mr. LONG. Would you have sold weapons to the Germans in World War II while we were fighting them?

CONTINUING ARMS SALES TO CHILE

Admiral PEET. Of course I wouldn't, not while we were fighting them. I am speaking more from the State Department point of view, but we still have hopes of——

Mr. LONG. Exactly. But the point——

Admiral PEET (continuing). Winning friends and influencing people.

Mr. LONG. A country doesn't necessarily help it by providing weapons to another country. You have to feel that somehow you want to build that country up. Isn't it true that by selling weapons you are building ——— them, are you not?

Admiral PEET. I think in this case it is to our advantage to sell weapons. However, I would be the first to agree with you, if my choice were to sell weapons or sell economic aid of some sort. I would take the economic aid as opposed to the weapons, no question about that. The choice is not mine to make.

Mr. LONG. It is not, but we are looking to you for help and guidance. Isn't it true that by shaping grant and aid policies, you have some influence on what these countries buy? Do we have to just assume that the buyer is always right, that the customer is right, no matter what he wants, and that you should sell to him out of our money?

Admiral PEET. We do have influence on what they buy and we turn down many sales to the Latin American countries.

Mr. LONG. Why can't we turn down more arms sales?

Admiral PEET. We are trying. Every sale we make has to have the approval of the State Department, the Ambassador, the Country Team, and so forth. We have shown great restraint.

Mr. LONG. That doesn't seem hard to get when you are selling weapons——

Admiral PEET. If my only motive was just to make sales, I would find it very hard to get approval across the board. That is not our motivation, Dr. Long. It bothers me that you feel that it is.

Mr. LONG. I don't understand what your motivation is.

Admiral PEET. The best interests of the United States.

Mr. LONG. One minute you tell me that the motivation of our arms sales is to stabilize the world and prevent countries from being taken over by insurgents. Then when two countries are taken over by insurgents, you move in and sell them even more weapons than you sell to the countries around them that have not been taken over by insurgents. I find this hard to understand.

Admiral PEET. Perhaps Mr. Forman can elucidate.

Mr. FORMAN. I am disturbed by your repeated statements that all these countries have been taken over by insurgents. I am unaware of any insurgent movements which seized power in Chile.

INSURGENT COUPS

Mr. LONG. It was a constitutional takeover but one which we didn't view with great happiness.

Mr. FORMAN. ——— it was not a guerrilla movement that came into power by taking over the government by force of arms. It came into power by election. Other than Castro's Cuba, I cannot think offhand of any insurgent movement, guerrilla movement by fighting in the streets, taking over a government.

Mr. LONG. Exactly. That is what I have been trying to say all along. Here you are selling billions of dollars of weapons to countries to prevent them from being taken over by insurgent movements when all the takeovers are usually by vote, constitutional movement. There is no real threat that you have to worry about.

Mr. FORMAN. I would argue the other way.

Mr. LONG. You have just said so that there was no threat.

Mr. FORMAN. No, I would say the support we have given has prevented these insurgent movements from taking over. Worldwide there has been very little in the form of insurgency movements that have succeeded in the past decade or so.

Mr. LONG. I agree. I think a survey conducted about 5 or 6 years ago indicated that there were not many more than several hundred insurgents in all of Latin America. It was a bogus threat—I always felt it was—contrived to provide justification for the sale of arms. This is precisely the point I am trying to make; that is, when countries get taken over, they are taken over to a large extent by some political force in the country that decides to move in with some group of colonels, either Leftists or Rightists. And they move in and take it over. It does not matter how many weapons you give them. In fact, the more weapons you give them, the stronger the government is that takes over, against our particular wishes. Isn't that right?

Mr. FORMAN. This is not true in all cases. As you will recall, Che Gueverra was an active insurgent in Latin America, but he was caught.

Mr. LONG. Cuba is the one case?

Mr. FORMAN. I am not talking about Cuba. Gueverra elsewhere.

Mr. LONG. What did he accomplish elsewhere?

Mr. FORMAN. He got himself killed as a result of the fact that people in that country had been trained in counter-guerrilla activities and stopped that insurgency movement. I think also you have to put these Latin American sales in context. Certainly we recognize tne moral force of what you are saying.

Mr. LONG. Do you really?

Mr. FORMAN. I do, Admiral Peet does, and Dr. Tarr does.

Mr. LONG. Admiral Peet was quoted in the Christian Science Monitor of May 29, 1973, as being weary of talk of merchants of death.

Admiral PEET. I am.

Mr. LONG. That statement does not indicate that you recognize the moral force of what I am saying.

Mr. FORMAN. As a moral matter, neither countries nor individuals should be encouraged to expend money foolishly, for a wrong order of priorities. Let us put this in perspective in Latin America. In the Latin American context, the percentage of the gross national product spent on the national defense budget runs roughly about 2 percent. Some of these countries, such as Brazil, are very large countries. Brazil is larger geographically than the United States. When you take that 2 percent of the gross national product, and bear in mind that roughly about three-quarters of that is going for pay and allowances and other operating costs and only a small balance of that is going to replace obsolete hardware, you are talking perhaps of one-half of 1 percent of gross national product. While you may deplore even one-half of 1 percent, it is really not that significant.

Mr. LONG. Isn't it? Wouldn't you agree that 1 percent or 2 percent of the GNP of a desperately poor country is too much because its ability to save capital is very tiny? After the people of this country have paid for necessities like food and clothes, they have very little left over. That is true of poor countries. Their savings, or capital accumulation, is bound to be extremely small. If you take 2 percent of the GNP of that country, it can be a very large percentage of its capital accumulation. Its savings is all that the country can use to get ahead on, and it has lost a large part of that by spending 2 or 3 percent of its GNP on defense. We all know that Latin American countries are not moving ahead. Many volumes have been written about this. The Alliance of Progress is a failure. You can go anywhere in Latin America, and once you get outside the cities, you see virtually no progress. The people are as poor as ever. Except that more of them are poor. Yet the very thing that we need to provide—the schools, roads, and housing, all that these people need to get ahead—we are putting into weapons. While it may not be a very large percentage by our standards, it is a very large percentage by theirs. Wouldn't you agree with that?

Mr. FORMAN. Dr. Long, I can only reiterate, as has been stated earlier, that we are talking in terms of a small percentage of their budget, and of their total expenditures. Second, unless you are going to abolish their armed forces completely, and certainly that would be desirable around the world if we could achieve general disarmament under effective international control measures, if we are not going to abolish armed forces around the world, armed forces will exist and they are going to want weapons, however much you may deplore——

Mr. LONG. Do we have to finance armed forces?

Mr. PASSMAN. If we don't, foreign competition will. It is that simple.

Mr. FORMAN. It is that simple, but it is not just that we don't want to lose to foreign competition. As Admiral Peet said, we would rather——

Mr. LONG. The merchants of death argument?

Mr. FORMAN. We are not interested in just getting——

Mr. LONG. That is what the merchants of death argument is. If we don't sell the weapons, then, somebody else will, and somebody else will make the money.

Mr. FORMAN. We are not doing it just to make money but for foreign policy and security reasons. We are not making any money at it if we are giving them credit at the cost of money to the United States. We don't make a dime out of it.

Mr. PASSMAN. Will the distinguished gentleman yield?

Mr. LONG. If I could finish, and then I will.

I agree that these sales are not in the interest of the United States. Although I do think that what is happening is that the American taxpayer is paying the bills. But certain people in the United States are making money out of it. Certainly the business firms exporting the weapons are making money from the sales. It is in their interest to promote these arms sales.

As for the old "merchants of death" argument of the 1930's, I agree that America is not making money out of this. There are certain people, like the State Department, that think we are.

Mr. PASSMAN. In keeping with my agreement yesterday, Dr. Long, the admiral must depart promptly at 3 o'clock. You may resume your questioning tomorrow.

Mr. LONG. Thank you.

Mr. PASSMAN. The gentleman has an appointment.

Mr. LONG. I have one in Baltimore and this fits in with my schedule.

Mr. PASSMAN. We are speaking about what we are selling Latin America. Competition is selling $3 worth of equipment to Latin America for each $1 we sell; is that true?

Admiral PEET. Yes, sir.

Mr. PASSMAN. They are buying 75 percent of their needs abroad. If we didn't provide them, they would switch the other 25 percent?

Mr. YATES. Arms needs?

Mr. PASSMAN. Yes. Planes and everything. Straighten the record out on this. It is important.

You mentioned Russia sells $14 billion worth of military equipment to our $22 billion. If you take the percentage of any other category where we sell, it means that their effort in the military is far greater than any other endeavor; is that correct?

Admiral PEET. Yes, sir.

Mr. PASSMAN. After all, what percentage is that of the total commerce in the world sales for Russia? Russia is making a greater effort percentagewise than we are when you consider their total world sales of all commodities. I thought you would want that in the record.

Admiral PEET. I appreciate that.

Mr. PASSMAN. Thank you, gentleman. The committee is adjourned.

THURSDAY, JUNE 14, 1973.

U.S.S.R. MILITARY AID THREE TIMES THAT OF UNITED STATES

Mr. PASSMAN. The committee will come to order.

As we concluded the hearings yesterday, we were discussing the amount of Russian military sales as compared to U.S. military sales. As we have checked the record, we find that in 1972 the Russian military assistance was $1,562 million. This represented 0.3 of their gross national product, whereas America's military assistance was $1,201 million, which is 0.1 of our gross national product, so as you relate the percentage of military assistance to the gross national product, the Russians gave exactly three times as much as the United States.

The actual statistics as applied to the military assistance program, for emphasis I want to repeat that Russia has actually exceeded ours, but when you break it down on the basis of a percentage of Russia's gross national product in relationship to our gross national product, it simply means their effort is three times greater than ours.

Of course it is true we have just concluded a very expensive war in Vietnam, and thanks to a great President for concluding it under the most difficult circumstances, and that is not included, of course, in the military assistance total. That is aside and apart from military assistance as we consider it.

[Discussion off the record.]

COMMODITY IMPORT FUNDS FOR CAMBODIA

Mr. YATES. Admiral, yesterday I think it was Mr. Long who was interrogating you about payments to the Cambodian soldiers.

Admiral PEET. Yes, sir.

Mr. YATES. Was it Mr. Long? Somebody was interrogating you about this.

Admiral PEET. Yes, both Dr. Tarr and me.

Mr. YATES. Perhaps it was Mr. Roush. Did you tell him how much we were paying the Cambodian soldiers? Did you reply to this question?

Admiral PEET. Dr. Tarr answered that question. It is a rather involved matter.

Mr. TARR. I don't think we said how much of our commodity import program funds go to the payment of salaries. I think I promised Mr. Long to provide something for the record.

Mr. YATES. For what purposes are our commodity import funds used? That is one of them, to pay salaries of the Cambodian soldiers. For what other purposes are they used?

Mr. TARR. Mr. Yates, the only thing I know about is that the commodity import program funds go to the general support of the budget, but specifically what purposes they are assigned to I don't know. I will have to provide that for the record.

Mr. YATES. Who assigns them?

Mr. TARR. I think this is a part of the negotiations that we have with the Government at the time we worked out the terms for the commodity import program.

Mr. YATES. Do we verify the expenditures in any way, to see that they are allocated in accordance with the agreement?

Mr. TARR. I think we have to, but I will have to provide that for the record.

[The information follows:]

SUPPORT OF THE CAMBODIAN BUDGET

The bulk of CIP-generated local currency is used in support of the Cambodia military budget. Within the military budget the specific use of the funds is governed by an annual military budget support program agreement between the USG and the GKR. During current year 1972, CIP counterpart riels were largely used for military salary purposes. Other military uses included airfield improvements, training centers, dependent housing, temporary housing, and prisoner-of-war facilities. One nonmilitary use has been a local currency loan to the Cambodian rice purchasing organization to buy local rice and jute bags. In addition, a small portion of such local currency generations is reserved for U.S. administrative expenditures in Cambodia.

The GKR budget is, of course, reviewed to insure compliance with the program agreement. Where local currency proceeds are used in support of the military budget, the U.S. military equipment delivery team assumes responsibility for observing and monitoring fund utilization. The U.S. Economic Counselor is responsible for monitoring local currency attributed to the civilian budget.

PAYMENT OF THIRD COUNTRY TROOPS IN CAMBODIA

Mr. YATES. Are there soldiers of any other nation fighting in Cambodia, whose salaries we pay?

Mr. TARR. Not that I know of.

Mr. YATES. How about Philippine soldiers?

Admiral PEET. There are none in Cambodia, sir.

Mr. TARR. I don't think so.

Mr. YATES. Koreans? No other country has soldiers fighting in Cambodia?

Mr. FORMAN. None that we are financing. I don't know of any that we are financing.

Mr. YATES. We were financing the salaries of soldiers of some of those countries during the war in Vietnam.

Mr. FORMAN. Of the troops in Vietnam, but there never were third country troops deployed from Vietnam to Cambodia, apart from those who were in Vietnam during the cross border operations in the summer of 1970.

Mr. YATES. Are all the troops from other countries who were in Vietnam out of Vietnam now?

Mr. FORMAN. Yes, sir.

U.S. CIVILIANS IN CAMBODIA

Mr. YATES. Are there any civilians whose salaries we are paying for fighting in the war in Cambodia?

Mr. FORMAN. Civilians fighting?

Mr. YATES. Or in advisory capacities?

Mr. FORMAN. No. We don't have any civilians fighting, and there are no civilians who are in the position of advisors to the Cambodian army. Under the statute there is a limitation of 85 third country nationals whom we may have in country paid by our funds, and those civilians or third country nationals are used in a variety of jobs, some of which are on the embassy side, some on the military side, but they are in a technical support logistics function.

Mr. TARR. We do have Air America people under contract who often fly on hazardous missions and might be lost as a result of combat actions.

Mr. YATES. They aren't engaged in combat flying?

Mr. TARR. No; but they might be flying a small airplane and encounter difficulty.

THIRD PARTY INTERMEDIARY

Mr. YATES. Tell me whether my memory is correct. In times past, when we have wanted arms to go to certain countries, on occasion we have used Germany or another country as an intermediary. Is my memory correct on that?

Mr. FORMAN. No, sir, if by your question you mean have we deliberately shipped arms to country A to ship it to country B. We have never done that to my knowledge.

Mr. YATES. No, no. It isn't quite that way, but haven't we asked Germany to enter into an arms agreement that we did not want to fulfill?

Mr. FORMAN. I think you may be referring to a question concerning M–47 tanks?

Mr. YATES. Yes.

Mr. FORMAN. About 5 or 6 years ago?

Mr. YATES. Yes.

Mr. FORMAN. As to whether or not Germany might take tanks which had been previously furnished to it by us, and which they no longer needed, and furnish it to Pakistan? That transaction never was accomplished.

Mr. YATES. We are engaged in no such activities today, using a third party as an intermediary for the furnishing of arms.

Mr. FORMAN. Well, there are occasions from time to time when a country comes to us and says that it has been asked by a third country to supply it with some arms, which the first country got from us, and depending on the facts of the case and the policies, we may or may not give our consent. We furnish periodic reports to the Congress of each such transaction.

MAP IN EUROPE

Mr. YATES. I notice in your European program you are giving certain arms to Spain. Why are we doing that?

Admiral PEET. Spain is a base rights country, Mr. Yates. It is a quid pro quo.

Mr. YATES. This is a part of the quid pro quo for the rental of bases in Spain?

Admiral PEET. Yes, sir. It is in accordance with a 1970 agreement.

Mr. YATES. Is this true of Finland too? I notice you are giving some arms to Finland.

Admiral PEET. I don't believe there is anything other than training.

Mr. YATES. Have I misinterpreted that chart you gave us?

Mr. TARR. There is a possibility for some training in Finland, but we have not had a material program there. We had $30,000 last year, $11,000 the year before. When I say last year I mean fiscal year 1973. We show $20,000 this year.

Admiral PEET. It is for three training billets.

Mr. YATES. I am looking for the page on Greece. I don't find it here.

Mr. TARR. It is Near East and South Asia. It is because in the State Department they come under this.

Admiral PEET. Page 36.

ONLY SALES FOR GREECE

Mr. YATES. I notice there is a rather substantial arms relationship with Greece proposed. There is $65 million proposed for a credit sale in 1974, is that correct?

Mr. TARR. Mr. Yates, we entered into an agreement with the Government of Greece in fiscal year 1972 for the purchase of F–4 aircraft. There is a requirement for payments on that contract each year for what, 4 years?

Admiral PEET. No, sir, 3 years.

We have extended $45 million in credit for fiscal year 1972 and $58 million for fiscal year 1973. The remaining $50 million is due in fiscal year 1974.

Mr. YATES. What is represented by the $65 million as listed in your sheet?

Admiral PEET. It includes $50 million for the F–4's. We have not determined the exact purpose of the remainder. We are sure Greece will want that much or more to meet other requirements.

Mr. YATES. Was that just a guess then?

Admiral PEET. All these figures are estimates.

Mr. TARR. Except the $50 million that we know under the contract will be required for payment.

Admiral PEET. That is the case when we enter into a multi-year arrangement.

Mr. YATES. Greece will receive no military assistance in fiscal year 1974. What I am talking about is the column under military assistance program. There is none listed for Greece in 1974.

Admiral PEET. None is planned.

Mr. TARR. Not even training.

Admiral PEET. So it is zero grant aid.

ASSISTANCE FOR THE NEAR EAST AND SOUTH ASIA

Mr. YATES. It is zero all the way around for India?

Mr. TARR. I think there is a very small training program in India.

Mr. YATES. That is not listed on the sheet.

Mr. TARR. No. I am sorry, Mr. Yates, but we have to refer you to another page.

Mr. VON MARBOD. Page 6.

Mr. YATES. Shouldn't the pages be reconciled?

Admiral PEET. Training is a separate program.

Mr. YATES. Should I also refer back for possible assistance to Iran, or are we giving no assistance to Iran?

Admiral PEET. There is nothing for Iran—not even credit.

Mr. YATES. We are giving $35 million in military assistance to Jordan, is that correct?

Admiral PEET. Yes, sir.

Mr. YATES. Of what does that consist?

Admiral PEET. F–5 aircraft, vehicles, et cetera. On page 33 there is a listing of the items. It includes ammunition, communications equipment, and so on.

Mr. YATES. I see $65 million for security support and assistance for Jordan in the next fiscal year. Can you tell us what that is for?

Mr. TARR. There is a very small part of that which is involved with the extension of an irrigation system in the Jordan Valley. I think it is about $10 million, which will include about $5 million actually for capital improvement projects, and then some money for village development, agricultural credit loans, this kind of thing, so the full thing is about a $10 million program.

Mr. YATES. Is it not listed as $65 million?

Mr. TARR. No, I mean of the $65 million.

Mr. YATES. Of the $65 million, $10 million is for the items you just described.

Mr. TARR. Yes. The remainder I think is simply to support the budget of that nation.

Mr. YATES. I see $5 million listed for Lebanon. What is the $5 million in credit sales to Lebanon for?

Admiral PEET. As shown on page 38, there are ——— patrol craft, some armored personnel carriers, some general purpose vehicles, et cetera.

Mr. TARR. I think though, to be honest, Admiral Peet, on this one we have to keep in mind some of the problems that the Lebanese Government has had recently with the fedayeen. It is possible they are going to come back and want to change this substantially, and they may put a considerable amount of this into ammunition. ———.

Admiral PEET. The matter is currently being negotiated.

Mr. TARR. We have to really look at these as illustrative.

ASSISTANCE BY THIRD COUNTRIES

Mr. YATES. I notice ——— million for third country assistance with respect to Saudi Arabia. What does that mean?

Admiral PEET. ———. That ——— million represents sales programs from Italy in the amount of ——— million, and from France, about ——— million.

Mr. YATES. In what?

Admiral PEET. Sales.

Mr. YATES. Of arms?

Admiral PEET. Yes, sir.

Mr. YATES. Perhaps I wasn't clear in my earlier interrogation, but that is what I thought I was asking about: whether we helped in the sale of arms from third countries to other countries.

Admiral PEET. No, this doesn't involve us at all. It is an estimate of the credit sales by third countries to Saudi Arabia.

Mr. YATES. Will we pay for it?

Admiral PEET. No, not in any way.

Mr. TARR. Mr. Yates, that line is just simply to give you a feeling of balance for all that is being done from all sources for the country. It is found in each one.

Mr. YATES. Third country assistance then shows what will go to the country under consideration from other countries?

Admiral PEET. Yes, sir. Mr. Shriver was particularly interested in who else is helping.

Mr. YATES. Why should Italy be doing that? Have we asked her to do it? Why is Italy helping Lebanon with arms?

Admiral PEET. It depends on how one defines "help." It is credit sales.

Mr. YATES. Do we have any participation in it at all?

Admiral PEET. No, sir.

Mr. YATES. Then this is a separate deal worked out between Lebanon and Italy?

Admiral PEE. Yes, sir. In some areas of the world, we encourage such arrangements. For example, we encourage Australia to assist Indonesia.

Mr. YATES. The program for Turkey is pretty substantial, isn't it?

Admiral PEET. The Turkish program is our third largest.

Mr. YATES. Who assists Turkey with third-party assistance? I notice it is listed for $7.8 million.

Admiral PEET. The current estimate is a ——— sale from Canada and a ——— grant from Germany.

Mr. YATES. Are we a part of that in any way?

Admiral PEET. No, we are not. We are in favor of that grant from Germany.

FMS FOR GREECE

Mr. YATES. What would happen if we didn't engage in credit sales for Greece?

Admiral PEET. It would make it very difficult for Greece, because the F–4 sale was a multiyear arrangement involving $143 million in FMS credit.

Mr. YATES. How much of that has been concluded?

Admiral PEET. $45 million in 1972 and $58 million in 1973.

Mr. YATES. How many planes are involved?

Mr. TARR. ———. That is for all 3 years.

Mr. YATES. What is meant by the item "U.S. security assistance"?

Mr. TARR. As opposed to third-country assistance.

SECURITY SUPPORTING ASSISTANCE FOR ISRAEL

Mr. YATES. I notice Israel is listed for $325 million. Is that the sum total of credit sales plus security supporting assistance?

Admiral PEET. Yes, the $325 million total includes $300 million in credit sales and $25 million in supporting assistance.

Mr. YATES. Did Israel receive $50 million in supporting assistance for the fiscal year 1973?

Mr. TARR. Yes, sir.

Mr. PASSMAN. It was earmarked, I believe, so we could be sure it went to Israel.

Mr. YATES. Why is that reduced to $25 million for this fiscal year?

Mr. TARR. The reason we put in the reduction was that the Israelis' foreign exchange reserves have gone up to over $1 billion, and we thought this would be adequate.

The Senate, in their authorization bill, put it back at $50 million.

Mr. PASSMAN. I believe we also earmarked $50 million for Israel for other relocation of Soviet Jews.

Mr. TARR. That is right.

Mr. YATES. That is a different portion of the program, is it not?

Mr. TARR. That is what was in the ——

Mr. PASSMAN. Continuing resolution?

Mr. TARR. It was in John Hannah's part of the program.

Mr. PASSMAN. I wanted the record to show it. We also earmarked $300 million for military credit sales.

TERMS OF MILITARY CREDIT SALES

Mr. YATES. When you speak of a military credit sale, do you have varying terms for different countries, or do you generally have the same pattern of sales?

Mr. TARR. Mr. Yates, we have either the requirement they pay the cost of money to the U.S. Government, or we have the option to offer concessionary terms.

In the program to Israel it has been concessionaire on the part of the U.S. Government lending so that the total program, including private bank credit, will work out to the cost of money to the United States. The part that we fund is below the cost of money to the U.S. Government, but the whole thing evens out at the cost of money to the U.S. Government since the bank credit portion is higher.

Mr. YATES. How long are the credit terms?

Admiral PEET. Eight to 10 years.

Mr. YATES. When is the first payment made?

Admiral PEET. Sometimes there is a moratorium of 2 years. It varies and depends on the contract.

Mr. TARR. Israel is making payments on her loans now.

Mr. YATES. When were her first loans?

Mr. VON MARBOD. Fiscal year 1959.

Mr. FORMAN. The normal credit agreement provides for repayment on principal to begin approximately 1 year after the date the agreement is signed.

DELINQUENT CREDIT ACCOUNTS

Mr. YATES. Have there been any defaults in the military credit sales?

Mr. VON MARBOD. No defaults. There are four countries presently in arrears.

Mr. PASSMAN. Aggregating only $2 million though.

Mr. VON MARBOD. That is correct.

Mr YATES. Which are the countries?

Mr. VON MARBOD. Chile, Ecuador, Paraguay and Tunisia.

Mr. YATES. Are you pressing them for payment or do you propose to extend it?

POSSIBLE DIFFICULTIES IN COLLECTION PROCEDURES

Mr. VON MARBOD. We are pursuing the normal collection procedure.

Mr. TARR. The record might well show that in some of these we list as being in arrears there are points of difference between our Government and the government in question so that it is not all that clear that they are in fact in arrears, but to be conservative, we show it as a nation in arrears.

Mr. YATES. Is that true with respect to each of the countries?

Mr. TARR. Of the four, I think it is true of two at least.

Admiral PEET. Each case is a little different. Sometimes there is an argument over whether or not more interest is owed.

Mr. YATES. Are there countries that ask for more than 10 years, or is that statutory?

Mr. TARR. It is statutory, but we are asked.

Admiral PEET. Particularly in the case of Israel.

Mr. ROUSH. How can there be uncertainty in the amount owed? Are the agreements so loose that they are subject to the kind of an interpretation that would permit us to come to the place where we are uncertain? There is no uncertainty in how much I owe the bank. I know that.

Mr. FORMAN. I would like to answer that in very general terms. With regard to Paraguay, there was and is to some extent a continuing argument about deliveries—a question of whether the amount delivered fully satisfied the quantity of the order, and, second, whether there was defective merchandise. It is not an argument about the amount of money specified in the agreement, but whether we supplied what we said we would supply.

In the case of Tunisia, it was a very old agreement. The problem there is that the Army, a number of years, gave the Tunisians what purported to be a final billing and they paid it.

Several years later, the Army, in readjusting its books, decided they had made a mistake and billed Tunisia again. Tunisia has since that time paid the new principal amount demanded and has been arguing it should not be held liable for the interest differential between the time they paid what they thought was the final bill and years later when the Army said no, they had made a mistake.

In the case of Chile, Chile has been in bad financial condition, as you may know, and has become in arrears in its debt payments to a group of countries throughout the world. These countries have gotten together, including the United States, to agree on a rollover of the Chile debt.

It is not an argument about whether they owe the money; it is a general inability to meet their debts worldwide.

U.S. REFUSALS TO SELL ARMS

Mr. YATES. Have we turned down any countries that have asked for arms assistance?

Admiral PEET. Yes, sir.

Mr. YATES. Can you tell me which they are?

Admiral PEET. For example, this year Taiwan would like to have more arms assistance than we have been able to provide.

Mr. YATES. Is that because of our new détente with the Peoples Republic of China?

Admiral PEET. ———. We have insufficient credit money to go around. There are Latin American countries in the same category. Turkey would like to have more credit assistance than we are able to provide.

Mr. YATES. Are the reasons the same?

Admiral PEET. Yes, sir, ———.

Mr. YATES. Mr. Chairman, thank you.

Mr. PASSMAN. Of the $2 million that is in arrears, that is, $2 million out of outstanding sales of $1,800 million? Is that correct?

Mr. VON MARBOD. That is correct, with respect to direct financing.

Mr. PASSMAN. I believe you told us earlier in the hearings that Israel was completely up to date on her commitments, is that correct?

Mr. VON MARBOD. Yes; Mr. Chairman, Israel is current.

UNITED STATES, RUSSIAN MAP LEVELS

Mr. PASSMAN. For the benefit of the members who left the committee room yesterday afternoon to rush to the floor for the vote, I think I should say it is up to the chairman to keep the record straight.

The U.S. military assistance program in 1972 was $1,201 million. Russia's military assistance program was $1,562 million for the same period.

The U.S. gross national product was $1,151,800 million in 1972 and Russia's GNP was $578,121 million, so as a percentage of the GNP that is made available for military assistance. Russia's is 0.3 of their gross national product, whereas, the United States' is 0.1 of its gross national product.

Mr. YATES. Mr. Chairman, how do we know about Russia's military assistance?

Mr. PASSMAN. Well, our intelligence gives it to us.

Mr. YATES. I thought much of Russia's military assistance was surreptitious.

Mr. PASSMAN. I can only quote the figures given to me. If there is argument about the correctness of them, you will have to take it up with the people who gave them to me in the Defense Department.

We have never established any inaccuracies in prior years. Russia is allocating 0.3 of their GPN to the military assistance program whereas we are allocating only 0.1 so mathematically their effort is three times that of ours. Have I stated that correctly for the record?

Adimral PEET. Yes, sir, based on the data available.

Mr. PASSMAN. I just wanted to show that their effort is three times as great as ours in this field.

U.S.S.R., CHINESE MAP RECIPIENTS

Mr. YATES. Would the same source that gave you those figures about Russia to able to tell us what countries that assistance was going to?

Mr. PASSMAN. Unless there is objection, we will place in the record at this point a list of the countries we provide military assistance to and opposite that list the countries that the Russians are providing military assistance to. Can you do that?

Mr. YATES. Perhaps we should also know where the Chinese assistance is going.

Mr. PASSMAN. Would you place that in the record too?

Admiral PEET. Yes, sir.

[The information was provided to the committee.]

Mr. YATES. Are there other countries or are these the three major suppliers of arms?

Mr. PASSMAN. The others are selling. I don't know that there is anything in the way of grants.

If you have anything further, put it in the record.

Admiral PEET. This will all be on a classified basis.

CLASSIFICATION OF PROGRAM INFORMATION

Mr. PASSMAN. We are quoting these figures from information furnished to us by the Defense Department. We have been doing this for many years. Heretofore we haven't put it on the record and if it is not classified, I would like to see it on the record.

Mr. YATES. Mr. Chairman, are the allocations of "Military assistance" in previous years classified too? For instance, for 1973 and 1972? Are those classified?

Mr. PASSMAN. These documents have been greatly declassified when compared to several years ago.

Mr. YATES. The principal reason why we don't reveal it for the record, as I understand it, is that you don't want the countries to know about it.

Mr. PASSMAN. I don't want to retract my statement that these justifications have been greatly declassified when compared to several years ago. Is that a statement of fact?

Mr. TARR. Mr. Yates is talking about information on what Russia might be doing.

Mr. PASSMAN. I thought you were talking about ours.

Admiral PEET. Even for past years that type information is classified.

Mr. YATES. I was wondering whether the information given us each year becomes declassified after passage of time. Does it remain classified?

Mr. TARR. On country totals we don't classify ours now.

Mr. PASSMAN. Previously, Mr. Secretary, you classified it by amount. You gave as the reason if country A found out what country B was getting, then country C would want to get as much as country A.

When you say it is classified, we accept it as such.

You folks agreed subsequently it would not be classified. Have I stated it correctly?

Admiral PEET. Yes, sir.

U.S.–U.S.S.R. OVERLAPPING OF ASSISTANCE

Mr. MILLER. The chairman mentioned that Russia is offering countries military assistance. Is it possible that Russia is offering it to some of the same countries to whom we are offering military assistance?

Mr. PASSMAN. I believe there is some overlap. I think they are trying to offer and have accepted assistance to such countries as India, Nepal, and a few others like this where we also have an interest and we are in competition with them.

Would you include Pakistan?

Admiral PEET. The countries receiving Russian assistance are Bangladesh, Bulgaria, Cuba, Czechoslovakia, Egypt, East Germany, Hungary, India, Libya, Nepal, North Korea, North Vietnam, and Pakistan.

Mr. MILLER. So there is some overlap?

Admiral PEET. The only countries listed to which we have given military assistance are India, Libya, Nepal, and Pakistan.

U.S. ASSISTANCE TO LATIN AMERICA

Mr. MILLER. You spoke of Latin America the other day. We have many domestic programs for Latin America. We now have the Public Law 480 food program, the AID program, the multilateral banks that are aiding Latin American countries, and we are contributing to those multilateral banks.

Then apparently some of the countries in Latin America are able to release some of their funds in order to purchase military hardware. What are we really gaining? Whether we need to slow down on one or slow down on the other. That is, the domestic help or the military help. It seems to go in a complete cycle.

I am wondering what are we gaining by this kind of a program, plus the fact —are we driving some of the countries apart in Latin America, where we would be hoping they would pull together instead?

Admiral PEET. I think that is a question more appropriately addressed by the State Department. I have nothing to do with the other programs to which you refer. However, with regard to the military assistance, we have to maintain a balance. State allocates the dollars country by country. As we have said before, these countries are going to buy military equipment one way or another; and I, for one, feel it is better they buy from us than from some other country.

Mr. TARR. Mr. Miller, in general I think it would be fair to say there is no area of the world over which we have more anxiety in the preparation of this program than Latin America. Almost every approach that we have attempted has in one way or another gone awry.

We went through the process of denying the sale of equipment to Latin American nations. We all know the degree to which Latin American nations turned to other sources for the purchase of this equipment. Something that is not as well known is the degree of animosity that we created among these people by refusing to sell to them on the grounds that we were making a judgment that should have been reserved for them to make on their own.

I understand now, as I read the papers, that we are credited with all kinds of actions that I have never heard debated in the councils of government. In the development of this program, I never heard one word with respect to balance of payments. We have tried to talk about what would be best for us in advancing our valid interests in Latin America.

It is not a good answer to your question, but what I would like to convey is a sense of distress on my part and on the part of those with whom I have talked since we have tried to develop a reasonable program for nations with which we would like to continue to be friendly.

Mr. MILLER. Would you assume if we took all the dollars that are sent to the Latin American countries for military assistance and put that on the domestic program side that they in turn would still go to a third nation to purchase military hardware.

Mr. TARR. I am sure they would.

PROTECTION OF PANAMA CANAL

Mr. MILLER. Let's cover one area of Panama. I understand there is some assistance to Panama. This would be for their National Guard, as I understand. Do they guard the canal as such? Do we not have troops there guarding the canal?

Mr. TARR. When I was there about a year ago, Mr. Miller, I think we had a brigade in place, but it would be difficult to argue that either we or the Panamanians have enough on site to guard the canal. There is a certain amount of protection there for an incident, but certainly not enough to forestall anything like an invasion if anyone really wanted to invade us. We would have to rely on shifting forces from elsewhere for a major campaign with our forces assigned to the Canal Zone securing the airfields needed to receive the reinforcements.

U.S. EFFORTS TO INSURE OIL FLOW

Mr. MILLER. Let's shift over to the Near East and South Asia.

I notice in the booklet we have we speak about the stability of and access to the Persian Gulf area with the tremendous oil reserves which are of great importance to most of the free world.

What part of the military assistance program would be used in order to gain for us the needed petroleum? We are very much aware of the fossil fuel shortage and the energy crisis that we have at the present time. What part of the budget we have before us would be used as a guarantee of that flow of petroleum to our country?

Mr. TARR. I know of no way I could break down these figures to indicate what portion might be a guarantee for the flow of oil; rather, the entire program is put together with the hope it can accomplish a variety of objectives, for us, one of which is access to oil.

Mr. MILLER. We have in our own congressional district a situation in which industry at the present time is not able to expand or new industry is not able to open and furnish jobs to the people of our district. We have been confronted with this and we have even been confronted with the task of finding oil supplies to operate schools. We have service stations allocating gasoline. I think this certainly comes into one area of operation right here. I wonder what else you may be doing that would help us guarantee petroleum into our country from the various nations that you may be helping, or from other oil reserve nations?

Mr. TARR. Mr. Miller, obviously our oil comes from a variety of foreign countries. Of course, we also do rely upon domestic supplies to a considerable extent. With regard to the oil coming from either Venezuela or Ecuador our programs in those areas are in part conciliatory, in part an encouragement to the continuing flow. ——— But we in the State Department try to balance these out as best we can and maintain the flow of oil.

In Venezuela the Secretary made a very determined effort to gain the continuing cooperation of the Venezuelans, with a considerable amount of success, I think.

In the Near East some of the highest quality oils we are getting at the present time come to us from Libya.

There has been a great deal of criticism of our policy toward Libya because it has been judged that we have not been sufficiently firm with Libya, that American firms continue to make contracts with Libya to help them support, for instance, their Lockheed C–130 aircraft. ——— continue to maintain the flow of oil, which is some of the highest quality oil in the entire world.

With respect to the largest reserves of oil, namely in Saudi Arabia, and to a lesser extent in Kuwait and Iran—you already know what we are atttempting to do. We have worked very hard to cooperate with the Saudi Arabians in the ways in which they have sought our cooperation; partly in the organization of their National Guard elements; partly in providing for them the military equipment that they have sought; partly in giving them the advice that they have needed in their economic program.

You know of our sales program in Iran, what we have done to provide technicians for their use. You know about what we have determined we will do if Kuwait so desires.

That is a general roundup. I hope it is not too rambling an answer to your question.

LIBYAN OIL AND AID SITUATION

Mr. MILLER. Going back to Libya, you have mentioned the problems there, and also that we are receiving oil from Libya. The chairman has referred to the amount of military assistance being offered by Russia to the various countries around the world.

Would Libya be one of those countries?

Mr. TARR. No, she is not. One thing about Libya is that Colonel Qaddafi has been fiercely anti-Russian. His main source of help has come from France and to a lesser degree from Italy. Italy, of course, is a substantial investor in the oil development in Libya.

Now, in an indirect way, there has been some assistance from Russia to Libya, simply by virtue of the assistance that has come from Russia to Libya's neighbors, and thereafter some movement of equipment on a loan basis, particularly aircraft.

There is some evidence now that there are some Mig 21 aircraft owned by Algeria now stationed in Libya and the reverse, some Libyan Mirage aircraft are now stationed in Algeria, and there has been some movement also between Libya and Egypt.

Mr. MILLER. You spoke of Italy's interest there. Does the United Kingdom, France, and Italy have military assistance programs to any of the countries in the world?

Mr. TARR. Not that I know of. There are difficulties, however, in determining at what point concessionnaire sales become grant programs, but so far as I know, except maybe for small amounts of ammunition or excess defense articles, the assistance from these countries comes on a sales basis.

Mr. MILLER. Perhaps Admiral Peet has some information on this.

Admiral PEET. Our information confirms what Mr. Tarr says. However, we do show some cash sales from Russia to Libya. The third country, I would have to check that as far as Libya is concerned. I haven't that information with me.

[The information follows:]

Mr. MILLER. You do show some cash sales, Russia to Libya.

I understood from Dr. Tarr that we didn't have——

Mr. TARR. I didn't know of any.

Admiral PEET. It doesn't show what type of sales in the report we have.

Mr. TARR. This isn't so. I apologize, Mr. Miller, because I have never heard of any.

Mr. MILLER. Does it give the amount?

Mr. TARR. It says "from Soviet Union and China in 1972" but it doesn't say which.

Admiral PEET. We haven't a breakdown. It is in the amount of [———].

SOURCE OF OIL FOR INDOCHINA

Mr. SHRIVER. A moment ago oil was mentioned. Where does the oil or fuel used in Indochina come from? What is used in our bombers?

Mr. FORMAN. It all comes from offshore purchases. I don't know which country. None is coming from U.S. sources.

Mr. SHRIVER. That has been true all along, hasn't it?

Admiral PEET. The checks I have made show that to be true.

Mr. FORMAN. I think that is correct.

Mr. TARR. It probably comes out of the Persian Gulf.

U.S. INTERESTS IN LIBYA

Mr. MILLER. Dr. Tarr, do you know whether we have refineries there in Libya?

Mr. TARR. No, I don't.

Mr. MILLER. With this aid, military assistance from Russia, even though it is military sales going to Libya, and with the problem we have with energy now, I am wondering if we are in a position where even that oil from Libya could be cut off rather hurriedly?

Mr. TARR. Could be cut off to us.

Mr. MILLER. That supply to us could be cut off.

Mr. TARR. It very definitely could be cut off. The Libyans could sell their oil elsewhere if they made the right kinds of long-term agreements, rather easily.

Admiral PEET. I believe most of the Libyan supply goes to Europe right now.

Mr. MILLER. Do you have information through the State Department as to what length of time we enter into contracts with Libya and other countries? Are they short term contracts that could create great problems for us in the near future, or do we have long-term contracts?

Mr. TARR. I think it is not the length of the contract, but the possibility of the Government taking over the company that limits our leverage.

They took over a rather small U.S. interest just the other day, Bunker-Hunt, which was a part of the old British Petroleum group. British Petroleum was taken over some time ago and the Bunker-Hunt interests were taken over just the other day. There are rumors this morning about the possibility of expropriating three other American companies somewhat larger than Bunker-Hunt.

Mr. MILLER. Thank you, Mr. Chairman.

MULTILATERAL APPROACH

Mr. PASSMAN. As we move along new statistics are brought to our attention and we like to provide them for the benefit of the committee because one of these days there will be a markup and the information will be helpful.

We have established that under the bilateral aid loan program, the funds come back into the U.S. Treasury for the benefit of the American taxpayer, where on all multilateral organizations it is a one-way street. The funds go out and nothing comes back.

If we go back 13 years ago when the international financial institutions got under way, the appropriation was $73,666,000. At that time the bilateral program was $3,716 million.

Now we look at this year's bilateral requests for military and economic aid, it is $2,501 million whereas the multilateral requests jumped up to $1,234 million. Last year, even after very substantial reductions, the Congress appropriated in the continuing resolution $738,380,000 for the financial institutions which was the largest multilateral program that we have ever had.

This year they are asking for all of our cuts from last year to be reinstated, bringing it up to $1,234 million.

They are trying to increase the multilateral operation so they can tell us we must give them whatever they ask for. In effect, the committee will be done away with unless we can get on top of the multilateral requests and cut them and get it back to a bilateral basis where the funds will be fed into the U.S. Treasury rather than into some outside organization.

I bring this up for only one reason: we were told this morning by some of our spies that this committee's opposition notwithstanding, they were going to create the African Development Bank out of the Development Loan Fund without any authorization as such. I don't like it.

Mr. SHRIVER. Where did you hear it?

Mr. PASSMAN. Our spies gave it to us. We have a good spy system here.

I agreed earlier to yield to the new member of our committee, Mr. Chappell.

PANAMA AGREEMENT

Mr. CHAPPELL. Gentlemen, I am sorry I had to miss so much of your testimony before the committee.

Let me ask a basic question. For example, on the Panama security assistance program—are we on that now? Let me ask, how does this agreement work with Panama? For example, what part do they play in the security of the canal? How does this operate?

Mr. TARR. The security of the canal is our responsibility. I explained yesterday the territory on which the canal is built is and has been recognized as Panamanian, with the United States having been granted the right to act as if the territory is sovereign.

———.

Mr. CHAPPELL. Actually, I suppose what you are saying is that the security of it mainly is ours, and so far as the Congress is concerned, lies primarily with the Armed Services Committee. Is that correct? In other words, the part you refer to here only relates to what moneys

we would appropriate for the use of that country in programs which would be allied with our security in all of Latin America.

Admiral PEET. It adds to stability in the country.

EXPLANATION OF CHANGES IN MAP ANALYSIS

Mr. TARR. We are not really talking about the defense of the canal here.

Mr. CHAPPELL. I notice in the military assistance program analysis, you have the explanation of your major changes. Let me be sure I understand what you are talking about. You are talking about a change from what, the 1972 budget, or are you talking about a change between the 1973 and what is proposed?

Admiral PEET. When we presented the 1973 program, our proposals were based on the amount of NOA the administration requested. We did not get a 1973 bill and were only given continuing resolution authority. The changes made to accommodate the difference between the amount of the continuing resolution authority and what we had requested are explained in that section.

Mr. CHAPPELL. Is that explained under net change?

Admiral PEET. Yes, sir.

Mr. CHAPPELL. You are saying that is the difference between what you requested and what you got, including the continuing resolution?

Admiral PEET. Yes, sir.

Mr. TARR. What we got was available under continuing resolution, because the program had no funding last year.

EFFECT OF MAP FUNDING CUTS

Mr. CHAPPELL. Where they refer to "deleted" aircraft, what do you mean by that?

Admiral PEET. We mean that we had to delete those aircraft because we could not fund them within the CRA money that was available.

Mr. CHAPPELL. It was deleted because you didn't get enough money to do what you wanted to do under your originally recommended program?

Admiral PEET. Yes, sir. We are attempting to explain to you the effect of being limited to CRA.

Mr. CHAPPELL. I notice that you have many, many instances where you have used the word "deleted." Does it apply to aircraft and training entirely?

Admiral PEET. Yes, sir, it applies to any previously programed item.

Mr. CHAPPELL. What effect has that had on your overall purpose?

Admiral PEET. It had a debilitating effect.

Mr. CHAPPELL. Can you demonstrate this in some specific way?

Admiral PEET. I think perhaps the best example is the Korean modernization plan.

Mr. CHAPPELL. Where is that page?

Mr. TARR. Page 82, third from the bottom.

Admiral PEET. The objective of that plan was to modernize the Korean Forces so we could withdraw our troops in a reasonable length of time. We are more than $230 million behind in that plan, and we are not able to modernize those forces at the rate which we would have liked to maintain.

Mr. CHAPPELL. The point was to modernize the Korean Forces and thereby relieve our own obligations. For example, in manpower?

Admiral PEET. Yes, sir. It was to make them self-sufficient.

Mr. CHAPPELL. You had $96 million less than you thought you needed. In other words, you had $96 million deleted by these various things, and you are saying that $96 million prevented you from moving along with the Korean modernization, as you wanted. Are those programs set in terms of years or what?

Admiral PEET. The modernization plan is a 5-year program we negotiated with the Koreans.

Mr. CHAPPELL. How does it change the time frame then?

Admiral PEET. It delays it considerably.

Mr. CHAPPELL. Are we talking about 1 year, 5 years, 25 percent of the goal?

Admiral PEET. It will delay the program at least 2 years, in my opinion. However, we are in the process of making another analysis of that plan.

Mr. CHAPPELL. So you haven't a really good answer as to what the effect has been?

Admiral PEET. No, sir, not at the moment.

Mr. CHAPPELL. Can you demonstrate it in some other way, with some other country where you can specifically say what the results of those deletions have been?

Admiral PEET. In all of them, it reduces the defense capability; but it is hard to quantify the effect.

Take, for example, Indonesia. We are attempting to help Indonesia get back on her feet. As a result of our not being able to provide certain assistance, she finds herself unable to develop her Coast Guard. It is necessary for a country consisting of many islands to patrol those islands and keep contraband from entering. Because Indonesia is unable to do that, it is more difficult for her to get on her feet, become self-sufficient, and progress from dependency on us for grant assistance to a position in which she can stand on her own and buy whatever she needs.

DETERMINATION OF AID IMPLEMENTATION

Mr. CHAPPELL. What process do you go through to determine when one of these countries can stand on her own feet? What criteria do you use for this?

Admiral PEET. There are a number of factors involved. Working with State and others, we determine whether or not, if we withdraw our support, she will be able to stand on her two feet economically, or if she will be in such a weak condition that neighboring countries can move in.

Mr. CHAPPELL. Take the case of Indonesia where you determine that you are going to give so much money to bring them up to a certain level. How do you make certain that the moneys which you put in there actually get to the industries, and so forth, so that that country is going to make maximum use of that money to become self-supporting?

Admiral PEET. No money is provided through this particular program. We deliver equipment, not money. We have a military advisory group in Indonesia which supervises end item use.

Mr. CHAPPELL. Teach them how to use it?

Admiral PEET. Not only that, but we keep track of the equipment after it is delivered to see that it is used properly and in accordance with the agreements made with that particular country.

Mr. CHAPPELL. That is primarily for security purposes. Do you touch any of the economic factors in the moneys which go into these countries?

Mr. Secretary, what I am trying to find out is, a lot of us oppose foreign aid and many times I think we oppose it because we don't think the money is doing any good. I am trying to determine how you decide what you want to do, and you find out what the ends are, but how do you determine the means by which you seek to obtain that end and can you demonstrate to us how those means work in such a way that we might make a judgment decision as to whether the means are good enough for us to supply the money, or whether they are not?

Admiral PEET. Dr. Hannah will be testifying to this point in connection with AID programs. In each country, there is an Ambassador and a country team which includes both military and economic aid representation. That team, knowing the situation in the country and working with the country representative, develops the program for the country. That program is then passed for review through the U.S. chain of command.

Mr. CHAPPELL. Admiral, in talking to some people from these other countries, they seem to make the point that we impose our methodology so much upon them sometimes that they literally are unable to use that method and find themselves in a very wasteful situation, which suggests the question: Do you in the development of these programs, ask them to delineate their own problems and then to propose a solution, using the methodology which is familiar to them, or do we impose so much of our thoughts on them that they literally can't perform efficiently?

Mr. TARR. Mr. Congressman, I think this is certainly our weakness. That we tend to impose a United States solution on nations that are not prepared for it; this is what we must necessarily try to avoid.

Now, the program we have before us is primarily a program that relates to security and insofar as it is possible for our people to do so, they are instructed to try to solve security problems on the basis of that particular country's potential, expertise, the level of training, awareness.

There has been a great deal of talk in this and other committees about our program in Cambodia. One of the problems we have had in Cambodia is that here quite clearly is a country that is not capable immediately of assuming all of the niceties of our program with respect to controlling inventories, paying soldiers, and all the rest, and we have gotten into serious problems because of that.

I think part of your question aims at our attempts to improve the economy as opposed to improving the security.

Mr. CHAPPELL. I recognize that, but isn't there a very keen correlation between the two?

Mr. TARR. Of course.

Mr. CHAPPELL. While you are attempting to handle the security factors, don't you also have to be cognizant of how you can employ the technology there to help them improve themselves economically? My point is they are tremendously correlated, aren't they?

Mr. TARR. The relationships are close, and insofar as it is possible we do try to take these into account. We try to work with the Agency for Economic Development so that they are aware of what we seek to do, and we are aware of what they seek to do. I have a man in my office who works constantly on these economic problems of areas in which we operate. Yes, we do try.

Mr. CHAPPELL. I suppose in general what you are saying with reference to the military assistance program analysis sheets is that all of those items where you have marked "Deleted" are programs which you are attempting to reestablish in this recommended budget, is that right? So, if one would go through and glean that out, we would understand you are trying to get that back in. Is that the simplest way to say it?

Admiral PEET. Yes, sir, generally speaking.

Mr. CHAPPELL. Mr. Chairman, I am sorry I am so dumb on some of this stuff, but I did want to ask those basic questions. Thank you.

Mr. PASSMAN. I want to say to our new member he has impressed me, he has impressed the committee and he has impressed the witnesses with his line of questioning.

I heard a new definition of foreign aid. What you just asked reminds me of that definition. It is taking money from the poor people in a rich country and giving it to rich people in poor countries.

Mr. CHAPPELL. That is about it, too.

HELP FOR DEVELOPING NATIONS

Mr. PASSMAN. I think that is a pretty good description. I believe we are 185 years away from the constitution, aren't we?

Mr. TARR. Yes, sir.

Mr. PASSMAN. And some of the nations we are helping had thriving civilizations 2,000 years ago, didn't they? And 185 years ago we were a primitive nation of 3 million. So we underdeveloped while the developing nations were becoming underdeveloped while we were developing. Now we are becoming underdeveloped again trying to help underdeveloped nations, previously developed to develop again. I wonder when we succeed in becoming underdeveloped helping the underdeveloped nations develop if the then developed nations will come back and help an underdeveloped nation recover again.

Mr. LONG. You lost me there about 1850.

Mr. MILLER. Should we put that in the contracts?

Mr. PASSMAN. I think it ought to be in there. Now I am going to yield.

IMPROVING NEAR EAST EXCHANGE

Mr. CHAPPELL. I do have one more question I would like to ask, Mr. Chairman, with reference to the Near East.

Isn't there some way for us to get a better quid pro quo for the assistance which we are giving there in exchange for some minimums of fuel?

Mr. TARR. I think the only answer I can give to that is that the nations that we really are assisting are not the ones that have any fuel.

Mr. CHAPPELL. Is that entirely true?

Mr. TARR. It is very nearly true.

Mr. CHAPPELL. Of course Kuwait is not asking for any particular thing.

Mr. LONG. They sure are. We are proposing to sell them maybe $500 million worth of arms and equipment.

Mr. CHAPPELL. Let's discuss that for a moment. You are saying Kuwait wants to purchase from us so much military equipment. Are they not sufficiently interested in our equipment as opposed to some others to give us some kind of par-gaining advantage so that we can better tie down some of those fuel resources?

GAINING CONCESSIONS ON FUEL RESOURCES

Mr. TARR. I think at the present time the two nations where this might be a question, Kuwait and Saudi Arabia, there is a very good chance that we will not sell anything to them at all, because from the sheer point of competitive strength, we may not get the sale.

To introduce into this yet another requirement, namely if we sell you *x* number of F–4 aircraft you will guarantee to provide us the present level of——

Mr. CHAPPELL. Or sell to us.

Mr. TARR. That is what I mean, you will continue to sell to us, I think this would only complicate the negotiation and make it more difficult for us to make the sale.

Mr. CHAPPELL. Aren't these countries over there going to be compelled as the fuel shortage gets more acute, to arm themselves more and more to try and protect themselves against the have-nots?

Mr. TARR. I think this is the point, ———.

Mr. CHAPPELL. I think I get the picture. What you are saying is that in the missionaries, if I might coin a word, through the industrial products, through our military products, ———.

Mr. TARR. ———.

Mr. CHAPPELL. Then a follow-up question on that.

How does this relate to South America?

———.

Admiral PEET. Yes, sir.

Mr. CHAPPELL. Isn't that what you are trying to say?

Admiral PEET. Yes, indeed. Mrs. Meir was quoted in the paper the other day as saying that the one thing she has against Moses is that he led them to a land without oil.

Mr. TARR. He was 40 years in the wilderness and then finally pushed them into a place where there were no oil wells.

Mr. SHRIVER. We have, though, down through the years given considerable aid to countries that do have oil. Libya $228.6 million in grants from AID, Saudi Arabia $366 million. We have contributed through our AID programs to those countries that do have oil. I could pick out a lot of others.

Mr. TARR. Mr. Shriver. I think the question was, Isn't there some way that our present aid agreements can help to insure the source of petroleum? My response in the Near East was that the place where

we most need now to insure the source of supply for petroleum or those areas wherein grant aid or credit sales aid we are really giving nothing.

PREFERENCE FOR BILATERAL AID

Mr. SHRIVER. But hasn't the attitude been we are doing this out of humanity in this country and we are not expecting anything in return? We don't even want those people to know we are giving it. I think the chairman and I have seen some instances of that throughout the world, where the credit wasn't even given to our country for assistance that our taxpayers had given.

Mr. PASSMAN. Will the gentleman yield?

Mr. SHRIVER. Certainly.

Mr. PASSMAN We went to the rescue with our resources when they really needed help.

Mr. TARR. That is right.

Mr. PASSMAN. And they should know something about the definition of reciprocity. Would you buy that?

Mr. TARR. I would. Mr. Chairman, I would interpret your position with respect to discouraging the use of multilateral lending agencies, and also with the institution of more credit sales as opposed to grants as being a direct response to this historic attitude where we would somehow work to the advantage of the nation if no recipient of the aid ever knew where it came from.

Mr. PASSMAN. Unfortunately that is true of multilateral. The recipient does not know the donor and the donor does not know the recipient. You know that. Let me say this about the multilateral institutions. We don't know what country the funds are allocated to, for what purpose, for what amount, until after the fact, if ever. This committee is denied the right to examine those who administer the program, isn't that correct?

Mr. TARR. That is right.

Mr. PASSMAN. And the donor does not know the recipient, the recipient does not know the donor. Then if any of this is ever paid back it goes into the organization, never back into the U.S. Treasury. It is a matter of principle to me. If we are going to give it away let's let people know where it is coming from.

I hope I misunderstood your reply. Did you say that the Russians have a military assistance program in Bangladesh?

Mr. TARR. They have certainly trained pilots.

Admiral PEET. You are quite right, I did read Bangladesh from the list, but I failed to note that the next column shows the amount of zero.

Mr. PASSMAN. I am so glad we have cleared that up because we have poured an awful lot of economic aid into Bangladesh. Now I want to yield to Mr. Coughlin. You have been very patient.

CLARIFYING FMS FIGURES

Mr. COUGHLIN. Thank you very much, Mr. Chairman. As a new member of the committee, at the risk of plowing some ground that has already been plowed, I would like to go through your program here point by point for a bit, if I could. On page 3 of your justification you indicate that the foreign military sales credit program request is for $760 million.

Admiral PEET. Yes, sir.

Mr. COUGHLIN. There is an additional item saying DOD financed foreign military sales of $446 million. What is that?

Mr. FORMAN. A breakout of the first item.

Mr. COUGHLIN. So the $760 million is total.

Mr. FORMAN. Yes, sir.

Mr. COUGHLIN. Then the military assistance program is an additional $771 million, am I correct?

Mr. VON MARBOD. Yes, you are correct. However, we request only $652 million in new obligational authority.

Mr. COUGHLIN. I understand. Then the military training program is $33 million, is that correct?

Mr. VON MARBOD. That is correct.

Mr. COUGHLIN. In the early testimony it was said that there were cash sales of military equipment of $3.28 billion. Is that in addition to these other figures?

Mr. VON MARBOD. We estimate that fiscal year 1974 cash sales will be $3,928,100,000. No appropriations from the Congress are required for cash sales.

Mr. COUGHLIN. What are those, cash sales of military equipment to other countries?

Mr. VON MARBOD. Defense articles and services are sold to other countries in accordance with the provisions of sections 21 and 22 of the Foreign Military Sales Act and for the most part, under the section 22 provisions which authorize dependable undertakings whereby the country agrees to pay in such amounts and at such times as we require their money to meet disbursement.

Mr. COUGHLIN. Then in addition to that there was another $694 million in commercial sales?

Mr. VON MARBOD. Our estimate for fiscal year 1974 commercial sales is $726,525,000; here again, such sales do not involve appropriations by the Congress.

Mr. COUGHLIN. What is the difference between those and the cash sales?

Mr. VON MARBOD. Cash sales are made by the Department of Defense to foreign governments or military establishments or international organizations. Commercial sales are made by U.S. industry to foreign governments.

FUNDS AND MATERIEL FOR CAMBODIA

Mr. COUGHLIN. Now going to the Far East and Pacific section of your justification starting with Cambodia, the request for assistance to Cambodia is $167 million plus in military assistance, is that correct?

Mr. VON MARBOD. For fiscal year 1974, military assistance will be $167,194,000. In addition, we estimate that supply operation costs—those costs required to move materiel in the pipeline—will approximate $13,500,000. We have also allocated $5,800,000 to the training program for Cambodia.

Mr. COUGHLIN. And that is a substantial percentage of the total Cambodian defense budget?

Mr. VON MARBOD. It is indeed.

Mr. COUGHLIN. The largest item that I note of military assistance to Cambodia is for ammunition. The second largest is for other equip-

ment and supplies. What does the other equipment and supplies item consist of?

Mr. VON MARBOD. The other equipment and supplies for which we are seeking authorization and appropriation in fiscal year 1974 include aircraft and aircraft spare parts, vehicles, communications equipment. The other equipment and supplies would include engineering equipment, organizational base maintenance equipment, items of that sort.

Mr. COUGHLIN. Your justification has a separate item for aircraft, but there are also aircraft in the other equipment items, is that correct?

Mr. VON MARBOD. I was using "equipment and supplies" generically. I should have identified the aircraft separately.

Mr. COUGHLIN. None of these aircraft, as your justification would indicate, are fighter aircraft that are going to Cambodia?

Mr. VON MARBOD. The aircraft we propose for fiscal 1974 are cargo aircraft, trainer aircraft, UH–1 Helicopter and O–1 observation aircraft, all of which, as I said, we expect will come from excess.

Mr. COUGHLIN. But no fighter aircraft.

Mr. VON MARBOD. No fighter aircraft.

UNITED NATIONS AND THIRD COUNTRY ASSISTANCE TO INDONESIA

Mr. COUGHLIN. Moving on to Indonesia, if I might, the request there is for $20,826,000, am I correct?

Mr. VON MARBOD. You are correct. Again, we estimate that an additional $2,200,000 will be required for supply operations, and $2,000,000 for training.

Mr. PASSMAN. Would the gentleman yield at that point?

Mr. COUGHLIN. Yes.

Mr. PASSMAN. At one time Indonesia purchased only Russian military equipment, and they ran up an indebtedness there I think of millions of dollars. Did they ever succeed in working out an agreement on how they were to repay Russia that tremendous debt?

Mr. TARR. I think the discussions are underway now.

Mr. PASSMAN. If the gentleman will yield for one other question. Are they using the Russian equipment and spare parts from Russia or are they abandoning it?

Mr. VON MARBOD. They are having considerable difficulty in obtaining spare parts support for that equipment.

Mr. TARR. Much of it has been abandoned.

Mr. PASSMAN. It has been abandoned for junk I guess.

Mr. VON MARBOD. Yes, sir.

Mr. COUGHLIN. The aircraft that are being sent to Indonesia are F–51's, is that correct?

Mr. VON MARBOD. We do not propose to provide any F–51 aircraft during fiscal year 1974, Mr. Congressman.

Mr. TARR. There were six, Mr. Congressman, that went there 2 years ago.

Mr. SHRIVER. Would you yield?

What kind of help has Australia given?

Mr. VON MARBOD. Australia has given Indonesia F–86 aircraft manufactured in Australia.

Mr. SHRIVER. Is that all?

Admiral PEET. There are some others.

Mr. TARR. They are helping with the training.

Admiral PEET. Australia gave about ——— worth of grant aid in fiscal year 1973, and we estimate she will give the same amount this year.

Mr. SHRIVER. That isn't very much.

Admiral PEET. No, sir.

Mr. SHRIVER. Indonesia is really very close to Australia.

Mr. COUGHLIN. But the major item in this year's request is for spare parts for those aircraft, is that correct?

Mr. VON MARBOD. That is correct, as it relates to support of U.S. aircraft, not the Australian.

ESTIMATE OF MATERIEL FOR KOREA

Mr. COUGHLIN. Going on to Korea, the request for Korea is $238,789,000, am I correct?

Admiral PEET. Yes, sir.

Mr. VON MARBOD. Here again, Mr. Congressman, we are estimating that we will require an additional $22,500,000 to move materiel in the Korean pipeline; and we are also estimating a training program of $2,400,000.

Mr. COUGHLIN. And this is roughly half of the total Korean defense budget, is that correct?

Admiral PEET. Yes, it is.

Mr. COUGHLIN. The first major item in the assistance to Korea is for aircraft. Those are F–5 fighter aircraft that are being supplied to Korea, is that correct?

Mr. VON MARBOD. Yes, sir. They are F–5E model aircraft which are just starting to come from production.

Mr. COUGHLIN. And the other major item is $65 million for vehicles and weapons. What is the general nature of those?

Admiral PEET. It is trucks, howitzers, and other equipment of that sort.

Mr. VON MARBOD. That figure includes 5,865 trucks in addition to other items.

FISCAL YEAR 1974 PROGRAM FOR THE PHILIPPINES

Mr. COUGHLIN. Moving on to the Philippines, the request for the Philippines is $19,269,000, is that correct?

Mr. VON MARBOD. That is correct. In addition, we estimate $2,100,000 for supply operations cost, and $600,000 for training program.

Mr. COUGHLIN. I am having difficulty determining what that is being spent for.

Mr. VON MARBOD. The fiscal year 1974 program for the Philippines includes aircraft spare parts and aerospace ground equipment. Vehicles is another major category. The aircraft line item includes ——— UH–1 helicopters.

THAI ASSISTANCE, U.S. ORIGIN

Mr. COUGHLIN. Moving to Thailand, the request is for $55,762,000 in military assistance and $15 million in credit sales.

Mr. VON MARBOD. We are also estimating Mr. Congressman, $2,700,000 to move materiel in the pipeline, and $1,500,000 for training.

Mr. COUGHLIN. The largest single item is for F–5 aircraft; is that correct?

Mr. VON MARBOD. That is correct, including spare parts for aircraft.

Mr. COUGHLIN. And our assistance in this case is roughly a third of the total defense budget of Thailand.

Admiral PEET. Our request would represent about one-seventh of the Thai defense budget.

Mr. SHRIVER. Would you yield a moment?

Mr. COUGHLIN. Yes.

MAP SPENT IN UNITED STATES

Mr. SHRIVER. We may have asked this before, but there is one member from Michigan who always wants to know. MAP is buying trucks from Michigan, U.S.A., and you are not supplying any Japanese or other countries' trucks.

Mr. VON MARBOD. No, sir. The fiscal 1974 program for Thailand includes 1,561 trucks, 777 of which we will attempt to provide as excess defense articles.

Mr. SHRIVER. So some of them will come off the shelf as excess?

Mr. VON MARBOD. It will indeed.

Mr. SHRIVER. Some will not be new property, but it will all be American.

Mr. VON MARBOD. It will indeed. At this point, I would like to emphasize that all funds appropriated for the grant military assistance program, with the exception of certain administrative costs of our military groups overseas, and some minor offshore procurement programs, are spent in the United States. We estimate that, during fiscal year 1974, 95 percent of our $652 million new obligations authority request will be spent within the continental United States.

Mr. PASSMAN. However, the bills are sent to the U.S. Treasury to be paid and not to Thailand, on this grant aid. When the ships go to sea, the bills are sent to the U.S. Treasury to be paid for?

Mr. VON MARBOD. They are, indeed, Mr. Chairman.

UNITED STATES-THAILAND ASSISTANCE

Mr. PASSMAN. What effort is Thailand making to defend herself?

Mr. TARR. About $200 million.

Mr. PASSMAN. What is our grant aid going to be to Thailand?

Mr. VON MARBOD. We are estimating $58,462,000 plus $1.5 million for training.

Mr. PASSMAN. They are in more danger from the threat of communism than we are.

Mr. VON MARBOD. Indeed, Mr. Chairman.

Mr. PASSMAN. They are very wealthy by our standards. They have $1 billion reserve in the foreign exchange account and they are making money, I assume, off of a lot of our personnel there. Four years ago, we went into Thailand and got into a diplomatic wrangle with them about trying to borrow $250 million. Thailand finally agreed they would make a loan of $100 million, so we borrowed $100 million

from Thailand to be repaid at 6 percent interest in 4½ years and that $100 million falls due July 2.

I thank the gentleman for yielding.

AID FOR NEAR EAST

Mr. COUGHLIN. Moving on to the Near Eastern section of the justification, I understand there is no aid request for fiscal 1974 for Afghanistan, India, Iran, Nepal, and Pakistan.

Mr. VON MARBOD. As set forth on page 6 of the presentation, we are requesting funds to provide training for several of these countries.

Mr. COUGHLIN. Training only and no equipment?

Mr. VON MARBOD. That is correct.

Mr. PASSMAN. If I may interrupt again, something came into my hands recently and I will not reveal the source. It would be quite unethical. It concerns the attitudes of some countries with regard to the multilateral aid provided. A high-level U.S. Government official went to Latin America, the national leaders kept asking for aid. When he tried to talk to them about what we were doing in multilateral aid, they brushed that aside saying, "Oh, we know that, but what are you going to do?"

That just shows that the recipient countries of this multilateral aid are not interested that the United States is the main donor in their institutions and they feel these funds are provided by the organization and not by the United States primarily.

Mr. COUGHLIN. In Greece the $65 million in proposed credit sales is primarily for F–4E aircraft?

Mr. VON MARBOD. That is correct, Mr. Chairman.

Again, Greece, as a member of NATO, this is quite an important purchase to them.

Mr. COUGHLIN. And the $300 million in foreign credit sales to Israel, the bulk of that is for F–4 aircraft and A–4 aircraft, is that correct?

Mr. VON MARBOD. That is correct.

Mr. COUGHLIN. Of the $35,632,000 aid to Jordan, the bulk of that is for F–5E aircraft, is it not?

Admiral PEET. That is correct.

Mr. COUGHLIN. In the aid to Lebanon in the amount of $5 million in foreign credit sales, there are no aircraft involved in that?

Mr. VON. MARBOD. No, there are no aircraft involved.

Mr. TARR. I believe on that program we should emphasize once again that that program is in flux now as a result of recent difficulties. A lot of this money could well go into ammunition.

Mr. COUGHLIN. The aid to Saudi Arabia in the amount of $20 million in foreign credit sales—none of that is for aircraft, is that correct?

Mr. VON MARBOD. None of that is for aircraft.

Mr. TARR. We don't think they are going to use that amount. We initially put that in in the event we needed matching money for private credit for some of their purchases but we think it is highly unlikely that they will use it.

Mr. COUGHLIN. Finally in the aid to Turkey in the amount of $85 million military assistance, and $75 million in credit sales, the military assistance indicates that is for F–100 aircraft, is that correct?

Mr. VON MARBOD. The F–100 aircraft, Mr. Congressman, will be supplied as excess defense articles. However, we do require money for the reconditioning of those aircraft before they are delivered.

Mr. COUGHLIN. And the sales credits are primarily for F–4E aircraft?

Mr. VON MARBOD. Yes, Mr. Congressman. During fiscal year 1974, we would like to finance $75 million for Turkey's purchase of F–4's. That is a very important purchase for Turkey as a member of NATO.

NO FIGHTER AIRCRAFT FOR AFRICA

Mr. COUGHLIN. I will skip over Europe if I may and go to Africa. The $12 million in foreign sales credits proposed for Morocco are primarily for aircraft, none of which are fighter aircraft, is that correct?

Mr. VON MARBOD. Six C–130 transport aircraft are included in the $12 million foreign military credit sales we are proposing.

Mr. COUGHLIN. But none of that is for fighter aircraft?

Mr. VON MARBOD. No, none of that is for fighter aircraft.

Mr. COUGHLIN. In Tunisia the proposal is for $2,476,000 in military assistance and $2,500,000 in foreign military sales credits.

None of that is for fighter aircraft?

Mr. VON MARBOD. No, none is for fighter aircraft.

Mr. COUGHLIN. In either the military or the credit sales?

Mr. VON MARBOD. Neither includes the fighters.

AIRCRAFT SALES TO LATIN AMERICA

Mr. COUGHLIN. If I might move for a minute to Latin America. In Argentina, there is a request of $22,500,000 for foreign credit sales. Approximately $1.6 million is for fighter aircraft?

Admiral PEET. ———.

Mr. COUGHLIN. None of the rest is for tactical aircraft?

Admiral PEET. No, sir. ———.

Mr. COUGHLIN. Of the proposed $3,996,000 in military assistance to Bolivia and $4 million in foreign credit sales, is any of that for tactical aircraft?

Admiral PEET. ———.

Mr. COUGHLIN. Of the $10 million proposed for military credit sales to Chile, approximately $6.5 million is for tactical aircraft; is that correct?

Admiral PEET. We are uncertain just what Chile will want to use that credit for. It is under negotiation right now.

Mr. COUGHLIN. Would a substantial part be used for tactical aircraft?

Admiral PEET. I think it could be, yes, sir.

Mr. COUGHLIN. Of the $15 million in proposed foreign credit sales to Colombia, do you expect any portion of that to be for tactical aircraft?

Admiral PEET. No, sir, I do not.

Mr. COUGHLIN. Of the $20 million proposed in foreign military credit sales to Peru, approximately $10 million of that would be earmarked for tactical aircraft; is that correct?

Admiral PEET. ———.

Mr. COUGHLIN. Finally, of the $15 million proposed in foreign military credit sales to Venezuela, none of that would be for tactical aircraft?

Admiral PEET. No, I don't expect so.

Mr. COUGHLIN. Thank you very much. Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Coughlin, you did a superb job.

Mr. Miller, have you any questions?

Mr. MILLER. I have one question if I may, Mr. Chairman.

Mr. PASSMAN. Proceed, sir.

UNITED STATES-SAUDI ARABIA BALANCE OF PAYMENTS

Mr. MILLER. On page 39 of your security assistance program booklet it states, concerning Saudi Arabia, that the United States has important security-related interests in Saudi Arabia, one being the uninterrupted flow of oil from the largest exporter of crude oil in the world to the United States. But it goes on to indicate that the United States enjoys an annual balance of trade of over $200 million with Saudi Arabia. It is my understanding that we are purchasing billions of dollars worth of petroleum from Arabia and I understood we had a deficit balance of payments with Saudi Arabia. I am not sure what this statement means.

Mr. TARR. I really don't know what the figures are.

Admiral PEET. I will verify it for the record, but I believe we have a favorable balance with Saudi Arabia, and that the deficit is with the aggregate oil producing countries.

Mr. MILLER. It was my understanding we had an unfavorable balance with Arabia. Could you clear that up for the record? It may be correct, but I would certainly like to have it checked on the basis of the information we already have. Thank you.

Thank you, Mr. Chairman.

[The information follows:]

The United States enjoys a favorable balance of trade with Saudi Arabia. In fiscal year 1972, U.S. exports to Saudi Arabia were $314 million. Imports totaled $194 million, leaving the United States a net balance-of-trade advantage of $120 million.

REQUESTS OR A RESULT OF COMMITMENT

Mr. PASSMAN. Mr. Conte.

Mr. CONTE. How much of the grants, sales, credits, and training contained in the budget request is necessary as a result of obligations undertaken by this country in executive agreements? Would you also provide the committee with a detailed breakdown of how much going to each country is necessary because of these executive agreements? Would you also please provide a similar breakdown indicating what the United States is receiving in return for these commitments?

Admiral PEET. Approximately $199 million in credit assistance and $118 million in grant assistance have been included in the fiscal year 1974 security assistance budget request as a result of commitments undertaken in executive agreements. Virtually all of these funds are

in support of joint projects designed to improve the defensive capabilities of our allies. Because of budgetary and other considerations, these projects have been phased over more than 1 year. In each case, the agreements are clear that their implementation in future fiscal years is contingent upon the availability of funds and appropriate legislative authority.

I will review briefly the amounts involved for the various countries and the projects they are intended to support.

For the Republic of China, we have requested $10.7 million in credit assistance to support a program for the assembly of ——— on Taiwan. This program was initiated in October 1972. An additional $20.5 million in credit assistance and $28.3 million in grant assistance have been requested in support of a program, undertaken in February 1973, for the coproduction of ——— on Taiwan.

For Greece, we have requested $65 million in credit assistance for the procurement of ——— as part of a modernization program for the Greek Air Force, undertaken in March 1972.

In the case of Jordan, we have requested $35.6 million in grant assistance to carry out the third phase of a modernization program agreed in May 1971.

The program for Korea includes sums for four agreed multiyear projects. They are:

—$3 million in credit assistance in support of a program, undertaken in April 1971, for the production of ——— in Korea.

—$2.6 million in grant assistance and $1 million in credit assistance in support of a similar ——— production program agreed in January 1972.

—$5 million in credit assistance for procurement of ——— as agreed in July 1972.

—$48 million in grant assistance as part of a program, agreed in August 1972, to modernize the Korean Air Force with———.

For Malaysia, we have requested $19 million in credit assistance under a multiyear program for the procurement of ——— undertaken in June of 1972.

For Spain, we have requested $3.4 million in grant assistance to carry out commitments undertaken by the United States in the 1970 Agreement of Friendship and Cooperation. Under that agreement, as you will recall, the Spanish Government, for its part, granted the United States the right to use military facilities in Spain.

Finally, for Turkey, we have requested $75 million in credit assistance for the procurement of ——— as part of a program, undertaken in August 1972, to modernize the Turkish Air Force.

OPERATING AND MAINTENANCE COST

Mr. CONTE. You state that the primary objective of the assistance and credit resources are directed to the capital requirements of the recipient countries. You also state that these countries are expected to assume the bulk of the operating and maintenance costs. How much of the request for fiscal 1974 is for operating and maintenance costs? Please provide a country-by-country breakdown of this for the record.

Admiral PEET. Of the request for fiscal year 1974, $283 million (37 percent) is for operating and maintenance costs. The breakdown by country is as follows:

[In thousands of dollars]

East Asia and Pacific:	
Cambodia	131,845
Indonesia	8,427
Korea	47,563
Philippines	4,361
Thailand	27,288
Regional total	219,484
Near East and South Asia:	
Jordan	2,100
Turkey	18,364
Regional total	20,464
Africa:	
Ethiopia	4,655
Tunisia	488
Regional total	5,143
Europe:	
Portugal	262
Latin America:	
Bolivia	1,033
Dominican Republic	279
El Salvador	50
Guatemala	9
Honduras	60
Nicaragua	194
Panama	137
Paraguay	167
Uruguay	763
Regional program	525
Regional total	3,217
General costs	34,493
Worldwide total (TOA)	283,063

SPARE PARTS

Mr. CONTE. You indicate that the sales credits have a favorable impact on the U.S. balance of trade. How much of the credit sales for 1974 are for spare parts for equipment purchased in prior years, and how much are these countries spending on direct purchases of spare parts in 1974?

Admiral PEET. On the basis of past performance, we estimate that approximately 20 to 25 percent of the credit sales for 1974 are for spare parts to maintain equipment purchased in prior years. We are unable to ascertain the value of such spare parts being purchased directly by these countries during 1974, because much of the data pertaining thereto are not available from the Commerce Department until after the fact.

Mr. CONTE. You have provided 10-year figures for the foreign military sales, excluding commercial sales and grant assistance. What has the level of commercial sales been over the last 10 years?

Admiral Peet. During the 10-year period from 1964 through 1973, the total value of commercial sales was $4.3 billion.

SUPPLY OPERATIONS INCREASE

Mr. CONTE. The budget request for supply operations shows an increase of almost $8 million. Is this because the new accounting procedure was adopted during fiscal 1973 rather than at the beginning? If not, why is the increase so large?

Admiral PEET. The amount shown for supply operations is directly related to deliveries.

Deliveries for fiscal year 1972 were $429,107—supply operations for the same period amounted to $62,037 or 14.5 percent.

Estimated deliveries for fiscal year 1973 are $439,938—the latest estimate for supply operations is $64,500 or 14.6 percent.

The amount of $69,200 for supply operations was arrived at by taking 14.7 percent of the estimated deliveries of $470,000 for fiscal year 1974.

COUNTRIES IN ARREARS

Mr. CONTE. How many of the credit sales agreements are now in default? What is the outstanding principal value of these defaults? Please provide for the record a list of the countries in default and the amounts of the defaults.

Admiral PEET. There are no countries that are presently in default. However, there are four in arrears. They are reflected in the following chart:

[Values in thousands]

Country	Credit loans	Payments					
		Due		Paid		Arrear	
		Principal	Interest	Principal	Interest	Principal	Interest
Chile	32,429.4	7,967.8	1,246.5	6,960.0	927.1	1,007.8	319.4
Ecuador	572.9	441.3	143.1	----------	----------	441.3	143.1
Paraguay	217.4	217.4	63.4	217.4	----------	----------	63.4
Tunisia	5,014.3	2,814.3	569.7	2,814.3	518.9	----------	50.8

INDONESIA

Mr. CONTE. Is Australia the sole source of the third party assistance for Indonesia?

Admiral PEET. Currently, Australia is the only other country with an active assistance program for Indonesia, although New Zealand has recently indicated the possibility of offering limited amounts of training assistance. The Australian program amounts to about ——— over a 3-year period.

Mr. CONTE. What is the status of the internal security in Indonesia at present? Is it serious enough to warrant the need for two airborne brigades for internal security?

Admiral PEET. ———. I am certain that the existence of the two airborne brigades will serve as a valuable deterrent to any significant dissident challenge in that farflung archipelago.

KOREA

Mr. CONTE. What is the status of the bilateral negotiations between the North and South Koreans? You indicate that the need for the military requirements for the Republic of Korea may decrease in the

coming years. Could you provide a summary of what the estimates on this lessened need over the next 5 years might be in light of current conditions and progress?

Admiral PEET. The main forum for bilateral negotiations between the Republic of Korea and North Korea is the South-North coordinating committee. The third South-North coordinating committee meeting was held June 12–13, 1973, at which wide ranging points of view were presented by both sides. No new agreements were reached and each side reiterated the same basic proposals they had previously espoused at the second meeting on March 14–16, 1973. The next meeting is planned for September 1973.

Projections of decreased military assistance in future years are based on the following factors: completion of the 5-year modernization plan, continued favorable Republic of Korea economic growth, and continued reduction in area tensions, The Republic of Korea should be able in the post-plan period to assume through FMS cash and credit sales the major responsibility for maintaining its armed forces. Thus the amount of grant assistance required should decrease substantially. A precise schedule for such a phase down has not been determined since the 5-year plan is behind scheduled implementation and economic growth rate projections should be confirmed by experience.

Mr. CONTE. You indicate that the credit sales program level is based on what is determined to be the maximum they should undertake. Whose estimate is this? Does the Republic of Korea want to participate at a higher level?

Admiral PEET. The FMS credit level for fiscal year 1974 was based on the request of the country team and was approved by interested departments of the executive branch. The Republic of Korea has not asked to participate at a higher FMS level.

Mr. CONTE. You are requesting authority to grant ——— trucks to the Republic of Korea in the coming year. How many trucks have we provided through sales and grants in the past 5 years?

Admiral PEET. During 1969 and 1970, the United States provided ——— vehicles to the Republic of Korea through grant aid. No vehicles were provided through sales. The Korean modernization program which began in fiscal year 1971, called for a total of ——— vehicles of all types—one-quarter ton, three-quarter ton, 2½ tons, 5 tons, and 2½ tons and 5 tons dump trucks) to fill equipment shortages and replace obsolete vehciles in the Republic of Korea inventory. Since the beginning of the modernization plan, the United States has provided a total of ——— vehicles against that objective level. The source of these vehicles is as follows:

Funded under MAP	———
Transferred, Public Law 91-652	———
Excess defense articles	———
Total	———

Mr. CONTE. What is the basis for the need of ——— Sidewinder missiles? How many does the Republic of Korea have now?

Admiral PEET. The Sidewinder missile is an air-to-air missile used by tactical fighters. The ——— in the fiscal year 1974 program for Korea are intended for use on the F–5A, F–5E, and F–4 aircraft in the Republic of Korea Air Force inventory. The Republic of Korea

now has ——— of this type missile in its inventory. Based on the enemy threat, the total Republic of Korea Air Force missile requirement is ———. These ——— Sindewinder missiles are necessary to assist in filling this shortfall.

PHILIPPINES

Mr. CONTE. What is the source of the third country assistance in the Philippines and what form does it take?

Admiral PEET. Australia is providing, as grant aid, ——— 45-foot patrol boats at a cost of ———. Singapore sold a ——— patrol boat to the Philippines, which was delivered in 1972.

Mr. CONTE. What is the status of the Philippine effort to curb internal dissidence? How significant a threat is this dissidence to the Luzon base at this time?

Admiral PEET. The Muslim insurgency in the southern area is a significant internal threat. At the moment it has been stabilized, but could regenerate at any time. A limited Communist insurgency in the northern area is relatively dormant at this time, but represents a more direct threat to our U.S. base interests which are in that sector. The Philippine Government has been under martial law since September 1972, in order to effectively deal with insurgency problems and to institute socio-economic reforms.

Mr. CONTE. Has there been any indication on the part of the Philippine Government of a desire to start requesting rental payments for the bases?

Admiral PEET. Thus far there has been no official indication on the part of the Philippine Government. Last fall some of the political opposition party members made statements relating to the need for rent, which received front page coverage at the time, so the seed is definitely there. Currently, the Philippine Government has indicated a desire to review all of our military and economic agreements, but nothing definite has been agreed upon between us. The base agreement renegotiations were active until last year, when they were postponed. The Philippine Government might request that they continue again this summer, depending on what solidifies with regard to its interest in reviewing other agreements during the same relative time frame.

THAILAND

Mr. CONTE. You state the Thai Government will be assuming more of the costs of operating costs. Will this take effect in 1974? How much more will the Thai be assuming in this coming fiscal year?

Admiral PEET. The Thai Government will be assuming more of their operating costs. In fiscal year 1973, 78 percent of the military assistance program funds for Thailand were expended for O. & M. costs; in fiscal year 1974, 49 percent is programed to be expended. Assuming greater O. & M. costs by the Thais will be dependent upon the extent of their counterinsurgency operations and the attrition of military equipment. U.S. security assistance can prevent these costs from adversely affecting Thai economic stability and economic and social development.

Mr. CONTE. Would you please describe the cost sharing arrangement with the Thais on the two patrol frigates?

Admiral PEET. The cost sharing arrangement with the Thais on the two patrol frigates is as follows:

PF *107* ——— cost sharing venture; ——— million each country.—U.S. share funded by fiscal year 1968 MASF funds.—Ship constructed by American Shipbuilding Co., Toledo, Ohio.—Ship was delivered November 1971.

PF *108* ——— cost sharing venture.

Thai share ——— million; US ——— million.—U.S. share funded by fiscal year 1970 MASF funds.—Ship being constructed at Norfolk Shipbuilding & Drydock Co.—Ship was launched 26 May 1973.—Ship scheduled for delivery January 25, 1974.

Mr. CONTE. What are the sources of the third country assistance for fiscal 1972 and 1973? Why is there none for fiscal 1974?

Admiral PEET. The sources of third country assistance for Thailand for fiscal year 1972 are Germany ———, Singapore ———, United Kingdom ———, Japan ———.

The sources—consist of military sales—in fiscal year 1973 are: Germany ———, United Kingdom ———.

The sources and amounts of third country assistance for Thailand for fiscal year 1974 are unknown at this time.

REPUBLIC OF CHINA

Mr. CONTE. One-third of the military sales credits to Taiwan are for the F–5 aircraft. How large is their fighter force now, and how many aircraft will this increase their force by?

Admiral PEET. As of July 1, 1972, Taiwan's fighter force consisted of ——— squadrons of fighter interceptors ——— F–104's) and ——— squadrons of tactical fighters ——— F–5A's and ——— F–100's).

In accordance with the memorandum of understanding of February 9, 1973, between USG and GRC, the F–5E will replace the F–100/F–104 aircraft on a squadron-by-squadron basis as the F–5E aircraft are introduced into the GRC inventory from the coassembly/coproduction facility in Taiwan. Therefore, the coassembly/coproduction of F–5E's on Taiwan will not cause any increase in the fighter force of the Republic of China Air Force.

MALAYSIA

Mr. CONTE. You state that the Malasians are increasingly looking to the United States for military forces. The justifications also show a substantial decrease in third-party assistance. Could you indicate the reasons for this increasing reliance on the United States and the decreases of third-party aid?

Admiral PEET. Third-party aid has decreased as Malaysia has become more self-reliant. I do not think it is a matter of increasing "reliance" on the United States, but a matter of Malaysia's own choice on a case-by-case basis, reflecting a desire to purchase top quality equipment with solid logistical backup. Her official posture remains nonalined with regard to major power relationships.

Mr. CONTE. What will be the extent of the cash purchases of rifles, armored cars, and other equipment by the Malaysians in 1974? Will these all be U.S. purchases?

Admiral PEET. We anticipate that Malaysia will purchase $3 to $5 million of these categories of items during fiscal year 1974 and we expect that most all will be purchased from the United States.

PROJECT ENHANCE

Mr. CONTE. Have all the equipment transfers from other countries to Vietnam been accomplished yet?

Admiral PEET. Yes, sir.

Mr. CONTE. What was the total value of the equipment that was transferred under the Project Enhance Plus?

Admiral PEET. The value, considering the age of the equipment, would be approximately $70 million.

JORDAN

Mr. CONTE. How solid are the assurances that the military assistance being provided to Jordan will not be turned against Israel?

Admiral PEET. There is, of course, no absolute assurance that one sovereign nation will not under certain circumstances find itself at war with another. It seems highly unlikely that, after losing its most populous and economically lucrative territories to Israel in 1967, Jordan would want to risk further losses. ———.

Mr. CONTE. Have any of the weapons provided to Jordan in the past been diverted from the military forces to fedayeen forces by theft, capture, or otherwise?

Admiral PEET. During the period of unrest which existed in Jordan between 1967 and 1970 it is possible that such diversions may have taken place on a small scale, although we have no details. Since the pacification operations which the Jordanian Army carried out in 1970–71 we can state with reasonable assurance that no military items have been diverted from its stocks to any insurgent groups.

Mr. CONTE. What is the most recent assessment of the ability of King Hussein to control the activities of the fedayeen in Jordan?

Admiral PEET. There has been no fedayeen activity of any significance in Jordan since the army launched a series of security operations in 1970 and 1971. Since that time the military has been strengthened, partly as a result of U.S. military assistance, and is considered capable of coping with any internal threat to the stability of Jordan.

Mr. CONTE. What type of training is being provided to the Jordanians being trained in the United States?

Admiral PEET. We are training Jordanian Air Force personnel in aircraft, jet engine, electronic systems, and armament maintenance; also in flying and ground safety procedures. Jordanian Army officers, for the most part, attend the advanced courses at the various U.S. Army branch schools.

Mr. CONTE. How many jet fighters are in active service in the Jordanian Air Force at the present time?

Admiral PEET. ———.

Mr. CONTE. Why is none of the aid provided to Jordan being done through credit sales?

Admiral PEET. Because of Jordan's acute economic dilemma, worsened considerably by the termination of subsidies from Libya

and Kuwait, we have refrained from offering FMS credit in fiscal year 1973 and fiscal year 1974.

Mr. CONTE. How much will Jordan be purchasing in cash sales in fiscal year 1974?

Admiral PEET. Estimates at this time are extremely tenuous but our current projection is around ———.

TURKEY

Mr. CONTE. What is the present state of internal stability in Turkey? Is any of the request attributable to need for internal security measures? Has the recent agreement to terminate the production of opium in Turkey affected that country's internal security?

Admiral PEET. The internal stability and security of Turkey is good. Martial law, initially imposed in 1971, has been progressively eased and is in effect now in only four of the country's 67 provinces. The Government is stable and, with the approach of general elections in October, political activity is vigorous. Our request reflects the requirement for a strong, effective ally on NATO's strategically important southeastern flank, rather than to internal security needs. The agreement to terminate opium production has not affected Turkey's internal security.

Mr. CONTE. Would you please detail the third party assistance for Turkey in the coming year and what this aid will be used for. How much of this ——— is in grants and how much is credit? Turkey will be receiving a substantial number of aircraft in fiscal year 1974? What is the need for this great increase? Are any being retired in the next year?

Admiral PEET. It is estimated that ——— of the ——— estimate will be in the form of grants from the FRG. We hold no information as to what this aid will be used for. We do not know whether the remaining ——— will be in the form of credit.—— The contract, covering deliveries over several years, has an estimated value of about ———. Therefore, a part or all of the ——— may be made available in the form of credit to pay for these items. The aircraft being received by Turkey in fiscal year 1974 are ———. These aircraft will replace obsolete ——— aircraft currently in the inventory.

GREECE

Mr. CONTE. What are the "high priority modernization requirements' you list for Greece? They do not appear to be reflected in the tables in the justifications.

Admiral PEET. The other high priority modernization items are ———.

Mr. CONTE. Are there any indications that the recent abortive coup in Greece will necessitate rethinking of plans to provide assistance to Greece?

Admiral PEET. No grant assistance is being furnished Greece. We do believe that Greece requires financial assistance rather than grant aid. In light of Greece's strategic position in the Eastern Mediterranean we hope to continue to provide such credit funds that will enable Greece to meet its NATO commitments.

ISRAEL

Mr. CONTE. What is the reason for the withdrawal of other countries from providing assistance to Israel? What countries are these?

Admiral PEET. Among the countries supplying arms to Israel, only France has announced a policy of "no-sales" to that country. ———.

Mr. CONTE. Could you please provide us with an assessment of how Israel stands militarily with regard to the opposing Arab States?

Admiral PEET. ———.

Mr. CONTE. How much in the way of Soviet armaments have moved into the Arab region in the past year? To what countries are these arms going?

Admiral PEET. In the past year the following Soviet equipment has been delivered as indicated:

To Syria: ———.

To Peoples Democratic Republic of Yemen: ———.

To Iraq: ———.

To Egypt: ———.

Mr. CONTE. What is the size of Israel's air force now?

Admiral PEET. Israel's air force consists of the following: ——— transport aircraft, ——— jet fighters (supersonic), ——— jet fighters (subsonic), ——— helicopters.

LEBANON

Mr. CONTE. The justifications indicate that third country assistance to Lebanon is decreasing. The sales credits to that country are also decreasing. Will Lebanon continue to be able to minimize the fedayeen activities within the country in light of these developments?

Admiral PEET. So far the Lebanese Armed Forces have demonstrated the ability to cope with internal threats they have faced. The Lebanese Government has displayed a most commendable determination in the face of considerable pressure. While external assistance has decreased somewhat, we understand that Lebanon has allocated a considerable sum from its own resources to national defense.

Mr. CONTE. Are the Lebanese making any direct purchase of armaments from the United States at the present time? What do they plan to do in 1974?

Admiral PEET. The Government of Lebanon is presently making a number of direct purchases of armaments from the United States.

SAUDI ARABIA

Mr. CONTE. The third country assistance to Saudi Arabia showed a marked increase in fiscal 1973. What is the source of this assistance and what are the Saudi Arabians using the assistance for?

Admiral PEET. Since early 1972, Saudi Arabia has spent almost ——— on military equipment and technical assistance from the United States, the United Kingdom and France. These large expenditures were prompted by Saudi border troubles with South Yemen, by the British withdrawal from the Persian Gulf in 1971, and the continuing Soviet-supported arms buildup in Iraq and South Yemen. Although

King Faysal does not feel threatened by Israel, he is concerned over the possible impact on his country of a new round of Arab-Israeli hostilities. ———

Third country deliveries during fiscal year 1973 include the final shipment of ——— armored personnel carriers. In addition, another ——— worth of military equipment is to be provided by France, Italy and the United Kingdom. A ——— agreement was signed with London in May 1973 covering maintenance, training, and support for the Saudi Arabian Air Force over the next 5 years. The accord includes air-defense support equipment but not aircraft. The contract is described as a continuation of a 1965 contract with the United States and United Kingdom for training on and maintenance of Lightning aircraft and for operating the King Faysal Air Academy in Riyadh and the technical training institute in Dhahran. About ——— will be spent on housing and maintenance facilities at various air base.

Mr. CONTE. How much is the Saudi Arabian Government spending in fiscal year 1973 on direct purchases of armaments? How much does it plan to purchase in fiscal year 1974? What are the sources of these purchases?

Admiral PEET. In addition to the $20 million credit for modernization of the national guard, the Saudi Arabian Government has spent an estimated $273.8 million cash in fiscal year 1973 and we estimate another $413.5 million cash in fiscal year 1974. Apart from the defense articles being procured from France as stated earlier, defense articles in these estimated values have been procured or are being procured from the United States.

Mr. CONTE. Would you please describe the national guard modernization program the Saudi Arabians will be undertaking in fiscal 1974?

Admiral PEET. In March 1973, the U.S. Government and the Government of Saudi Arabia signed a memorandum of understanding in which the United States agreed to assist the Saudis in a program to modernize the Saudi Arabian National Guard. The program consists of three major elements:

(*a*) Sale of defense equipment and services through foreign military sales (FMS) channels.

(*b*) Design and construction of necessary facilities, installations, and supporting elements.

(*c*) Development, installation, and initial operation of training, communications, logistics, and maintenance systems.

Currently, estimated cost of the program is $300 million. Implementation is envisioned over an unspecified number of years.

PORTUGAL

Mr. CONTE. Do we now have an agreement with Portugal for the Azores base? What is the amount of economic assistance which the U.S. Government has offered for the base agreement?

Admiral PEET. Yes, sir. The United States has stationed forces in the Azores since World War II. The current arrangements are based on the Defense Agreement of September 6, 1951 (TIAS 7078), concluded pursuant to article 3 of the North Atlantic Treaty, and extended by various bilateral and unilateral arrangements including most recently, an exchange of notes on December 9, 1971. This extension

covered a 5-year period from the date negotiations commenced in 1969 and will expire on February 3, 1974. Economic assistance to Portugal in exchange for rights to station U.S. forces in the Azores during the 5-year period consisted of: a 2-year Public Law 480 program in the amount of $15 million per year, a willingness to provide Export-Import Bank developmental loans of up to $400 million—which Portugal has not utilized—the no-cost lease of one hydrographic research vessel, a grant of $1 million for educational development projects, and nonmilitary type DOD excess equipment in the amount of $5 million at initial acquisition cost. Although not directly tied to the Azores base rights agreement, we have continued to provide less than $1 million annually in military aid to Portugal. This consists mostly of training and spare parts for NTO-oriented Portuguese antisubmarine and air defense forces.

Mr. CONTE. Why does the fact that the U.S. offer for the Azores lease agreement is limited to economic assistance make the continuation of the military assistance program necessary?

Admiral PEET. As mentioned above, the limited U.S. military assistance program for Portugal is only indirectly related to the Azores basing agreement. We believe that continuation of this modest program is important to the security interests of the United States in that it supports Portugal's NATO-committed forces, primarily in the areas of air defense, antisubmarine warfare, and training and spares for previously provided U.S. equipment to be used in the NATO area. ———. The continuing need for military assistance for Portugal is reviewed anually and will be given particularly close scrutiny as the Azores agreement expiration date approaches.

Mr. CONTE. Would you please specify the ships and aircraft the Portuguese will receive under MAP in 1974?

Admiral PEET. We do not plan to provide any ships or aircraft to Portugal under MAP in 1974.

Mr. CONTE. What is the source of the $4.4 million increase in the third country assistance to Portugal in fiscal year 1974?

Admiral PEET. Third country assistance to Portugal consists of equipment sold by Spain (——— Navy Corvettes) and by France ——— helicopters) together with minor items to be provided over a 5-year period. It is estimated that procurement of these items will cost the Portuguese Government about ——— in fiscal year 1974. This assistance is separate from the ——— million listed in the fiscal year 1972 column on page 44 of the CPD.

SPAIN

Mr. CONTE. Are negotiations underway to negotiate a continuation of our use of the military bases and facilities in Spain? Will these be concluded by executive agreement again?

Admiral PEET. The 1970 United States-Spanish Friendship and Cooperation Agreement does not expire until September 1975. We do not expect to commence negotiations for extension or renewal for some months yet. Nevertheless, we are undertaking preliminary studies concerning our need for facilities on Spanish bases in the future and Spain's former foreign minister, Lopez Bravo, discussed the future of the agreement during his April meetings with the Secretaries Richardson and Rogers here in Washington. As you probably

know, there has been a recent change of government officials in Spain and we have not, as yet, had any indication of their views on the timing of negotiations.

Mr. CONTE. Would you please detail the aircraft to be provided to Spain under MAP in 1974?

Admiral PEET. We do not plan to provide any aircraft to Spain under MAP in 1974.

Mr. CONTE. What training will be provided to the Spanish military in the United States during 1974?

Admiral PEET. We plan to provide training in repair and maintenance of communications and electronics equipment; helicopter and aircraft repair and maintenance; helicopter and aircraft maintenance test pilot training; radar and Hawk missile maintenance; and a variety of naval afloat training.

Mr. CONTE. In your general comments on Europe, you noted that European military procurement tends to be cyclical. Do you have any projections as to when the next upward cycle will be? Do you have an estimate as to its magnitude?

Admiral PEET. We do not project our estimates of total sales, both FMS cash and credit beyond 1 year in the future. We have found that sales projections beyond 1 years are totally unrealistic because the data upon which such estimates are based, data such as future approved foreign defense budgets, continuance of current production lines, third country competition with U.S. products, et cetera, are highly unreliable.

ETHIOPIA

Mr. CONTE. What is the status of our communications station at Kagnew Station in Ethiopia? Do we have a lease? What are we committed to under the lease?

Admiral PEET. ———. Planned reductions and the transfer of management responsibility from Army to Navy are expected to reduce the total complement to about 600 DOD personnel in fiscal year 1974. We have a 1953 base agreement with Ethiopia that runs to May 1978, although leases signed under that agreement may be terminated upon 1 year's notice.

MOROCCO

Mr. CONTE. Your estimates of the third country assistance to Moroco indicate a substantial upsurge. What is the source of this aid? Is this aid being used to purchase aircraft? If so which type?

Admiral PEET. The ——— indicated for third country assistance is for ——— transport aircraft and small arms and ammunition. The bulk of this material was provided by France with the remainder furnished by the United Kingdom.

ZAIRE

Mr. CONTE. The third country assistance for Zaire shows a marked increase in fiscal year 1972 and 1973. What is the source of this aid? What is this aid being used for?

Admiral PEET. During December 1969, Zaire negotiated the purchase of ——— armored cars from France at a cost including spare parts of ———. In March of 1970, a contract was completed also with France for ——— helicopters. The cost of the spare parts was ———

plus an additional ——— for 20 millimeter cannons for ——— of the helicopters. ——— were delivered in 1971. Announcements in May 1971 indicate that an additional ——— helicopters were ordered. Beyond the fact that ——— helicopters were delivered, no additional details are known.

LATIN AMERICAN TRAINING PROGRAM

Mr. CONTE. You state that, in part, the Latin American training program is directed to promote U.S. influence and doctrine. Would you please explain what you mean by that statement.

Admiral PEET. As I indicated in a previous question, on the subject when one discusses military relations it is significant to note that the Latin American military and their U.S. counterparts have worked successfully together on matters of mutual security for many years. This professional relationship has created avenues for communication and a degree of mutual understanding which we consider to be a continuing, positive factor in our overall relations with the countires of this region. With regard to doctrine, the needs of mutual security are best satisfied when the participating armed forces are agreed on matters of operating theory.

LATIN AMERICAN THIRD COUNTRY AID

Mr. CONTE. You indicate that the U.S. effort in the credit assistance area has reduced the tendency of the Latin Americans to purchase arms from third countries. How much will they be purchasing from third countries in the coming year?

Admiral PEET. We are not able to predict how much the Latin American countries will spend on arms purchases from third countries in the coming year. We are able to predict, however, that if we do not have adequate credit to cover the items they desire to purchase from the United States, the Latin Americans will turn to third country sources that will provide the necessary credit.

Mr. CONTE. You also indicate that you expect a downward trend in the training and materiel programs in the coming years. Could you provide us with some hard estimates which are the basis for this trend? What is the reason for the downward trend if they are not purchasing as much from third countries?

Admiral PEET. Provision of military security assistance is predicted upon recognition by the recipient that responsibility for their defense is a matter on which they must make the basic decisions and be willing to devote a fair share of their own resources. We consider phasing down grant materiel assistance when it is consistent with our interests and with attainment of reasonable economic stability and growth which allows the recipient country to acquire the amount previously provided under grant with their own resources. Many countries in Latin America are approaching this plateau. This is not to say we are indiscriminately terminating grant materiel assistance and forcing them to go to third countries for their defense needs. It is a planned phasedown of the grant materiel program with appropriate transition to U.S. foreign military credit sales as necessary.

ARGENTINA

Mr. CONTE. You have a short term estimate for the ability of the Argentinian forces to contain insurgency. What about the long term?

Admiral PEET. ——— isolated acts of terrorism, such as kidnapings, political assassinations, and robberies, are virtually impossible to control. Although there has been a spate of such terrorist acts in Argentina recently, they do not yet represent a serious threat to the Government.

Mr. CONTE. What is Argentina's need for A–4 aircraft?

Admiral PEET. Argentina has programed the purchase of ——— additional A–4 aircraft to compensate for attrition within its present A–4 fleet. Seventy-four A–4's have been purchased over the past 5 years and this U.S. fighter remains one of Argentina's first line fighter aircraft. Despite the purchase of three aircraft and 14 Mirage fighters from France, overall effectiveness of the air force is hampered by obsolete equipment, particularly in the air defense and close air support areas. Argentina still must rely heavily on the F–86F, a Korean war vintage aircraft. The A–4's, relatively simple to operate and maintain, allow for continued phaseout of their older aircraft and may reduce the possibility that the air force will seek additional expensive supersonic aircraft.

BOLIVIA

Mr. CONTE. You indicate that the internal subversion of Bolivia is supported by external forces. What are these forces and what is the extent of the assistance they are rendering to the insurgents?

Admiral PEET. ———

ARGENTINA

Mr. CONTE. Why is it necessary for Argentina to develop an enhanced antisubmarine warfare capability?

Admiral PEET. Argentina, with its vital sealanes, feels constrained to protect them. It also keenly feels the requirement to maintain arms parity with its neighbors, that is: Chile and Brazil in the ongoing regional balance-of-power political arena. Pride and national self-esteem also play a part in Argentina's desire to obtain more modern equipment.

Mr. CONTE. You expect the third country assistance for Argentina to more than double over 1973. The figure is also more than nine times what it was in fiscal 1972. What is the reason for this massive increase and what is the source? What is Argentina using this money for?

Admiral PEET. The data you are discussing is our best estimates on delivery data. Therefore, Argentina's yearly expenditures may not show such a drastic percentage of increase. In any event, it does show the costs which Argentina considers as being required to satisfy their modernization program. Argentina is purchasing equipment from Canada, France, Federal Republic of Germany, Netherlands, and the United Kingdom. The equipment includes armored personnel carriers, tanks, helicopters, aircraft, air defense radar, ammunition, ships, and communications equipment.

Mr. CONTE. Are we getting into a competition situation with any other countries to see who can provide the most military aid to any of the Latin American countries? If so, which ones and how much aid are they giving?

Admiral PEET. In the context of your question, I assume when you are talking aid you are referring to foreign military sales for which

the country either pays cash or we extend credit which is repaid to the U.S. Government in full, plus interest. Our request for additional FMS credit is not to provide Latin American countries with more arms than any other supplier; it is only to have adequate authorizations and appropriations to respond to the Latin American countries' requests to the United States to purchase military equipment. Low authorizations and appropriations have precluded the United States from responding favorably in the past, which in part, resulted in the Latin American countries redirecting their purchase requests for equipment to European sources.

CHILE

Mr. CONTE. If President Allende has largely withstood pressure to accept Soviet military aid, why has the third-country assistance for Chile climbed from $20 million in 1972 to $128 million in 1974? What is the source of this aid? How much of it is from the Soviet Union?

Admiral PEET. ———. The increase in third-country sales activities is actually delivery data rather than purchases made during a fiscal year. Therefore, Chile's yearly purchases may not show such a drastic increase. The purchases have been made primarily from the United Kingdom and France. As yet, Chile has not purchased military equipment from the Soviet Union.

Mr. CONTE. What effect has the United States/Chilean military relationship had on the other political problems we have been having with that country, particularly the questions surrounding the nationalization of certain U.S.-owned industries?

Admiral PEET. ———.

COLOMBIA

Mr. CONTE. Do you expect that the arms we are proposing to provide to Colombia will enable their armed forces to do a better job of controlling the insurgency?

Admiral PEET. Yes. The helicopters and possible fighter aircraft will give the Colombians a greatly improve reaction capability. These purchases will allow troops and air support to be immediately directed against insurgents in isolated areas. ———.

Mr. CONTE. Would you describe the U.S. policy of evenhandedness between Colombia and Venezuela? What is the basis for the adoption of this policy?

Admiral PEET. The policy of "evenhandedness" means that military equipment of the same type and quantities will be offered to each country for purchase from the United States. The basis for this policy is to avoid any accusation that the United States is attempting to favor one country over another, particularly where there is a potential basis for confrontation over a border dispute.

DOMINICAN REPUBLIC

Mr. CONTE. Is there an expectation of increased outside assistance to the insurgency effort in the Dominican Republic in the time between now and the May 1974 election? Do you have contingency plans to deal with such an upsurge? If so, what is the plan and how much will it cost?

Admiral PEET. ———.

EL SALVADOR AND HONDURAS

Mr. CONTE. Why is there an effort to maintain parity aid with El Salvador and Honduras? Does this not foster the continuation of the flareups between these two countries and make the results of these flareups more destructive?

Admiral PEET. It is hoped that by applying an evenhanded policy with respect to military aid to El Salvador and Honduras, and maintaining strong influence with the government and military we have the best opportunity to assist in maintaining peace in Central America. Such a policy does not foster flareups between the two countries but rather has precluded such flareups and contributed to a military balance which has maintained relative peace since the 1969 dispute.

MEXICO

Mr. CONTE. You indicate that you expect to make credit sales to Mexico of an undetermined type of aircraft. What types of aircraft are under discussion? How many aircraft are involved here? What is the need for these aircraft?

Admiral PEET. We do not intend to make any credit sales to Mexico for aircraft and no credit funds have been requested for such sales.

PANAMA

Mr. CONTE. You indicate that there is a purpose of facilitating cooperation between the United States and the Panamanian National Guard to predispose the National Guard to repression of riots and insurgency. Where does the Panamanian Government come in here? Is this being done outside of diplomatic channels and government to government channels? Why?

Admiral PEET. There can really be no action taken or agreements made by the Panamanian National Guard without the express approval of Brigadier General Torrijos, Commander of the National Guard and "Supreme Chief" of the Panamanian Government. So, the efforts to bring about cooperation between U.S. forces and the Panamanian National Guard are well-known by the Government of Panama. On the U.S. side of the picture, all items of U.S. interest in the canal, to include suggested areas of mutual cooperation between U.S. forces and the Panamanian National Guard, are initially discussed by the Panama Review Committee (PRC) which is composed of the U.S. Ambassador to Panama, the USCINCSO, and the Governor of the Canal Zone. Once the PRC decides that a certain measure is a good idea, it is submitted to State for interagency approval prior to adoption.

PERU

Mr. CONTE. What is the justification for the need of giving A–4 aircraft to Peru?

Admiral PEET. The provision to Peru of A–4 aircraft, already proven as a viable and relatively uncomplicated fighter in Argentina, would aid in moderate force modernization and possible preclude the purchase of more expensive third-country aircraft (perhaps additional Mirages from France).

FISHING DISPUTES

Mr. CONTE. Would you please describe the status of the attempts to resolve the question of fishing rights and the like, which bring the restrictions of section 3(a) of the Foreign Military Sales Act into play?

Admiral PEET. A number of proposals have been made to end the dispute, without success. The most recent initiative dates from August 1969 when a Quadripartite (United States, Ecuador, Peru, and Chile) Fisheries Conference convened. Chile is not directly involved in the present dispute, although associated with it through the Declaration of Santiago of 1952. ———. Chile, Ecuador, and Peru have rejected international arbitration or referral of the dispute to the ICS.

COMMITTEE APPRECIATION

Mr. PASSMAN. Admiral Peet, Dr. Tarr, Mr. von Marbod, and Mr. Forman, it has been my privilege to serve on the Committee on Appropriations for 25 years of 27 years in the Congress, and on this particular subcommittee 21 years and the privilege of chairing the committee for 19 years, and I cannot recall during my long tenure on this committee when we had witnesses any more responsive, and who had done their homework any better than all you gentlemen. Very few questions have gone unanswered. You had the answers, and I am sure you have impressed all members of this committee.

I want to assure you that this committee will be responsible, considering the limitations of our cash intake. As far as I know, this will conclude the hearings on the military assistance part of the bill until the Secretary of Defense can be heard.

KEEP PROGRAM TIGHT

I think we should, however, bring to your attention that we are going to have to borrow this money. It is certainly not coming out of current revenue, because I think we have all agreed that our own departments and our own defense come ahead of foreign aid.

You do buy that, don't you? If you have a deficit, you have to charge that to foreign aid.

There are $80 billion floating around the world for which we have no reserves to redeem them. Is that not right?

Mr. TARR. Yes, sir, Mr. Chairman.

Mr. PASSMAN. Please try to keep the program as tight as you can. I realize what you are up against, and for the first time, I say I realize better than ever before that we just cannot discount Russia. While they are trying to build up their presence in these countries, I guess it is necessary for us to be there. Until some time that we can work out some agreement where people are going to think in terms of freedom and not war, some military expenditures will be necessary.

Thank you again, gentlemen.

Admiral PEET. Thank you very much, Mr. Chairman.

Mr. PASSMAN. The committee is adjourned.

MONDAY, JULY 23, 1973.

SECRETARY OF DEFENSE

WITNESSES

HON. JAMES R. SCHLESINGER, SECRETARY OF DEFENSE
ADM. THOMAS H. MOORER, U.S. NAVY, CHAIRMAN OF THE JOINT CHIEFS OF STAFF
JOHN O. MARSH, JR., ASSISTANT SECRETARY OF DEFENSE (LEGISLATIVE AFFAIRS)
VICE ADM. RAY PEET, U.S. NAVY, DEPUTY ASSISTANT SECRETARY OF DEFENSE (INTERNATIONAL SECURITY AFFAIRS) FOR SECURITY ASSISTANCE AND DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY
COL. ROBERT M. LUCY, U.S. MARINE CORPS, LEGAL ADVISER AND LEGISLATIVE ASSISTANT TO THE CHAIRMAN, JOINT CHIEFS OF STAFF
BENJAMIN FORMAN, ASSISTANT GENERAL COUNSEL FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF DEFENSE
ERICH F. VON MARBOD, COMPTROLLER, DEFENSE SECURITY ASSISTANCE AGENCY
DONALD S. FLOYD, SPECIAL ASSISTANT FOR CONGRESSIONAL RELATIONS, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS

Mr. PASSMAN. The committee will come to order.

We shall continue this afternoon our examination of the request for foreign assistance. This afternoon we will consider the request for funds for military assistance, as well as military credit sales. We have before us as witnesses the Honorable James R. Schlesinger, Secretary of Defense, and Admiral Moorer, Chairman of the Joint Chiefs of Staff; also the Honorable John O. Marsh, Assistant Secretary of Defense for Legislative Affairs, and Vice Adm. Ray Peet, Director, Defense Security Assistance Agency, who appeared before the committee earlier; Col. Robert M. Lucy, Mr. Benjamin Forman, Mr. Erich F. von Marbod, and Mr. Donald S. Floyd, supporting witnesses.

Mr. Secretary, Admiral Moorer, Admiral Peet, we are very happy to have you here before the committee. I would assume that you have a statement that you would like to make before the committee, Mr. Secretary and Admiral Moorer.

STATEMENT OF THE SECRETARY OF DEFENSE

Secretary SCHLESINGER. Yes, sir.

Mr. Chairman and members of the committee, I am pleased to have this opportunity so early in my tenure as Secretary of Defense to appear before you and outline my views on the U.S. security assistance program.

Adm. Thomas H. Moorer, Chairman of the Joint Chiefs of Staff will follow me with his military assessment of the program. Vice Adm. Ray Peet, who serves as both the Deputy Assistant Secretary of Defense (International Security Affairs) for Security Assistance

and Director of the Defense Security Assistance Agency, has already discussed the content and management of the military assistance and foreign military sales programs. Unless requested, I do not propose to repeat any of the information he has provided.

Over the past several years, I have watched with great interest the heated debates on the Hill and in the press over the size, relevance, and overall importance of the security assistance program to our foreign and national security policies. The critics of the program have argued that since the world's economy is growing stronger, and since we have been able to negotiate certain arms control agreements, we have arrived at the era of détente and there is no longer a need for security assistance programs. As a result, the argument over security assistance has tended to dissolve into sterile debates over issues such as whether the cold war is truly over or whether our allies are getting a free ride at the expense of the economic health and well-being of the United States.

I am concerned at this trend of events because I am convinced that a viable U.S. security assistance program is an inseparable element of the national security program of the United States. I believe both programs are necessary to realize the fundamental principles of the Nixon doctrine.

The first is partnership with friendly nations in which the obligations as well as the benefits of peace are appropriately shared.

The second is a sufficiency of overall military strength, both United States and allied, in relation to that of others.

The third is a willingness, in company with our friends, to negotiate in order to seek solutions to the underlying causes that lead to conflict.

As the world has grown economically stronger and more diverse, the nature of the requirement for security assistance has changed. Europe, the recipient of an overwhelming portion of our military aid in the early 1950's, ceased to require U.S. military assistance more than a decade ago. Only small residual programs related to base rights remain. Japan has paid for all her military forces for many years. Grant aid to Latin America is a fraction of what it was in the 1950's. And, as their economies have strengthened, a growing list of countries have made the transition from grant military assistance to foreign military sales credits. They include, in addition to the European countries and Japan: Brazil, the Republic of China on Taiwan, Greece, Saudi Arabia, Malaysia, Argentina, Lebanon, Morocco, Zaire, and Colombia. By any standard, this is an impressive record of success for the security assistance program and a record of responsible change in accordance with actual conditions and situations. Continuing program adjustment has permitted the concentration of the resources we now request from Congress in a few high priority countries for maximum impact. Given reasonable levels of appropriations in the short term, we fully expect that most of the few remaining recipients of our grant aid will be able to move to a credit basis within the foreseeable future. Indeed, achieving that goal has become one of the major objectives of the security assistance program.

Thus, I agree with those who believe grant aid should be phased down, and if possible phased out, as rapidly as possible consistent with U.S. foreign policy objectives. This, however, must be done rationally and not arbitrarily and precipitously if we are to preserve and

strengthen the excellent international security arrangements that now exist. I believe that this is what we are doing and that the programs we are proposing reflect our efforts in this direction.

My intent is to outline for you the realistic goals and objectives I believe the administration's security assistance program can achieve. The review of the program which I have conducted since assuming office has reinforced my conviction that the levels of appropriation requested by the administration are appropriate.

The level of funding for these programs was decided by the President after considering most carefully the needs and priorities in relation to all other programs of the U.S. Government. These decisions culminated a planning and programing process that commenced more than a year and a half ago and which involved accumulation and analysis of data in several stages by our MAAGS and ambssdors in the foreign countries concerned, by our unified commanders, by the Joint Chiefs of Staff, and by numerous offices in the Departments of Defense and State. In addition, significant issues were addressed by other interested agencies of the executive branch such as the Office of Management and Budget, the National Security Council staff, and the Department of the Treasury. In brief, the programs proposed are the result of thousands of hours of data collection, analysis, and consultation during which a large number of foreign policy, economic, and military considerations were coordinated in order that we might propose programs that best serve a variety of U.S. interests.

Before I review the case for security assistance for you, let me begin by telling you what I think the program by itself cannot do:

It cannot substitute for strong U.S. defense forces to maintain fundamental U.S. security and protect our position in the world.

It cannot guarantee the success of our efforts to negotiate a more stable structure of international peace.

It cannot be directed to "buying" the support of our friends and allies for U.S. views and leadership, even on security issues. And,

It cannot guarantee or require that our friends and allies will maintain the purest of democratic governments in their respective countries.

It is important to keep this list of things the program cannot do in mind, because exaggerations of the program's expectations have been one of the main sources of disillusionment with its performance. Similarly, to judge the whole by examination of a single piece can be very dangerous. This program is the product of a long legislative and executive history, a history of success. Criticism may be easy if focus is on an isolated incident. But if we look at it in broad perspective, as we should, I believe we must conclude that security assistance is essential to overall U.S. interests and objectives.

Many of the misconceptions about what realistically to expect from security assistance derive from the remarkable continuity of this program since the late 1940's. While we have continued to propose, review, and fund military assistance in much the same manner each year, the place of U.S. security assistance in the world has changed dramatically in the past 25 years. In the late 1940's and early 1950's when security assistance had just begun, we were furnishing aid to a war-ravaged Europe and Asia seriously threatened with Communist takeover and a largely undeveloped Latin America in a world where the only strong economy and defensive capability was vested in the United States. In

1950, our friends and allies could neither afford to pay for their own military capability, nor could they look to alternative suppliers of military equipment—none existed in the non-Communist world. In that environment it is not surprising that the world's gratitude for our help was so great, or that the relative contribution of a dollar of security assistance to allied and collective security was so substantial.

Given this changed world environment, however, what rationale is there for even the limited security assistance program we are proposing? Today, there are two sets of complementary reasons for a continuing security assistance effort, one political and the other military. Politically, U.S. security assistance contributes in a major way to the maintenance of regional stability in three key areas: Northeast Asia, Southeast Asia, and the Middle East. It is also the fundamental mechanism for implementing the Nixon doctrine so that our allies can, over time, become truly self-reliant. And self-reliance not only enhances stability but decreases the probability of U.S. involvement in contingencies.

Militarily, the security assistance program makes a vital contribution to overall U.S. national security goals.

It contributes to the selective strengthening of the self-defense capability of certain key allies whose security is threatened; in some cases—for example, South Korea—this has reduced the requirement for U.S. forces, both in total numbers and numbers deployed oversas.

It secures for us continuing access to key bases and facilities around the world, bases which are important to the United States as well as allied security.

It fosters good military relations with our friends and allies and assures they acquire compatible military equipment.

As I have already said, our military security assistance programs are now concentrated in a few important countries. The bulk of the grant military assistance program goes to five countries, and almost half of the requested credit program authorization is for Israel. The Chairman of the Joint Chiefs of Staff will provide you with a military assessment of the need for these programs, but I wish to review for you the requirement, as I see it, for continuation of these programs in fiscal year 1974 at the levels the administration has proposed.

Korea.—The United States agreed with the Government of the Republic of Korea in 1970 to help modernize the Korean Armed Forces over a 5-year period. The $1.5 billion modernization program was designed to bring equipment in the Korean Armed Forces up to the standard of the North Korean Forces without endangering the continued rapid growth of the South Korean economy. Shortly South Korea should be in a position to finance most, if not all, of her defense needs. The Congress provided sufficient funds so that the program proceeded as planned in the first year; however, serious shortfalls in congressional funding the past 2 years have caused us to fall substantially behind in this important program. In order to make the necessary progress toward completing the program, we need appropriations in the amount requested—$239 million.

From a political point of view, Korea is one of the crucial areas of the world for the maintenance of peace. Stability in a military sense is tied to the maintenance of strong ROK defense forces, and it can be eroded if ROK confidence in U.S. support is threatened at this time.

Repeated failure of the United States to fulfill the funding objectives of the modernization plan could raise serious Korean doubts, on both sides of the demilitarized zone, about the long-term reliability of the U.S. commitment. Because any new conflict in Korea would immediately impinge on all four of Asia's major powers—the United States, the U.S.S.R., the People's Republic of China, and Japan—we have a large stake in the continued peace and stability of the peninsula. Our programs have helped to give South Korea the strength and confidence to deal with their own security problems, including a willingness to enter into negotiations with North Korea. For these reasons, we must not now undermine our own security interests in northeast Asia by underfunding of the Korean modernization plan.

Cambodia.—Our security assistance program for Cambodia is in a different category from other programs because this is the only grant military assistance program for a country actively engaged in hostilities to defend itself against aggression. By any peacetime standard, the $167 million requested for Cambodia would be out of proportion to the size and relative importance of the country. So long as there is no cease-fire in Cambodia, however, war-related consumables—primarily ammunition—will keep our MAP expenditures high. At present we are actively engaged in seeking a peaceful end of the hostilities in Cambodia to reinforce and strengthen the cease-fire agreements in Vietnam and Laos. Now that the Vietnam agreement has been strengthened through the four power communique of June 13, we are hopeful that a cease-fire in Cambodia can be arranged. If this should occur in the near future, actual U.S. military assistance expenditures in Cambodia in fiscal year 1974 might be considerably lower than programed. If adequate funds are not available, we might see not only the collapse of the Cambodian Government, but the rapid erosion of the Vietnam and Laos agreements—in short a collapse of the whole structure of peace in Indochina that the President has so painstakenly put together through years of negotiation. I understand and respect the views of the majority of the Congress on further U.S. involvement in the Indochina hostilities, and believe that this body would wish to see a promising conclusion to that tragic war. It is crucial to the success of our current efforts that the military assistance program in Cambodia be sustained. This is particularly true in view of the impending cessation of our combat involvement.

Thailand.—Last year Thailand returned to regular military assistance program funding after 5 years under military services funding. However, because that program had to be administered under continuing resolution authority last year, only $36 million could be made available for Thailand. This represented a substantial and dramatic cut from the previous funding level and was a serious shock to the Thai Government. Because of the importance of the extensive military facilities Thailand makes available to us in connection with the Indochina situation, maintaining a strong Thai military capability to deal with local and regional security threats is important to the United States. We are, therefore, seeking $55 million for grant military assistance and $15 million in credits for Thailand in fiscal year 1974. Assistance at this level should assure Thailand's ability to play a stabilizing role in the emergency equilibrium in Southeast Asia.

Turkey—U.S. security assistance to Turkey is now beginning to take on a different character as Turkey is relying less on grants and making greater use of credit sales. Nearly 50 percent of the program we propose for Turkey for fiscal year 1974 will be credit for foreign military sales. Turkey continues to play a vital role in the security of Europe as the eastern Mediterranean anchor of NATO's southern flank. Collective security considerations warrant continued grant assistance to Turkey while she strengthens her economy to the point where credit alone becomes a viable alternative. A continuing program at the levels recommended not only supports a staunch ally but is otherwise in the U.S. interest.

Jordan.—A stable Jordanian Government with a moderate outlook is essential to a just and existing resolution to the Arab-Israeli confrontation. Jordan is the only direct Arab protagonist in the dispute which has retained full diplomatic relations with the United States. Moreover, if the present Jordanian Government were to fall, the likely result would be a marked military and political shift in the area having a serious adverse effect on U.S. Middle East policy and U.S. endeavors toward a Middle East peace settlement.

Having weathered its most severe crisis in September 1970, Jordan continues to face serious challenges from the radical Arab States and the potential resurgence of Palestinian guerrilla activity. The Jordanian Armed Forces remain a well-trained, highly disciplined, and effective fighting force. They require arms and equipment to retain their effectiveness and self-reliance. The general economic disruption resulting from the September fighting has simply not permitted Jordan to purchase its requirements, and continued map grant aid is essential to help Jordan cope with the problem. The Jordanian program proposed for fiscal year 1974 is a key element in maintaining stability in the Middle East.

Israel.—Israel's economy is stronger than it has been in the past and her balance-of-payments situation has improved, but the risks of war are still present. This year's recommended credit program of $300 million sales reflects the continuing need for the United States to assist in the maintaining a military balance in the Middle East. This balance is essential to stability in the area while the search for a settlement continues.

On a worldwide basis, the foreign military sales credit program has assumed major importance as a key element of the military security assistance program. This program is the best instrument available for assisting allied and friendly nations to transition from the grant military assistance program to the full economic self-sufficiency which will enable them to purchase their defense requirements for cash. The Congress can help us in diminishing the need for grant aid by providing the FMS credit authorities and funding we are seeking. Not only does the program offer less developed allied and friendly nations a direct source of financing to be used to improve their defense capabilities and thus do more for themselves, but it does so on the basis of our national self-interest. Finally, it should be noted that these appropriated foreign military sales credit funds will be repaid to the U.S. Treasury in dollars, in full and with interest, at rates established by the U.S. Treasury Department.

Before any major military sale is made or credit is extended under the provisions of the Foreign Military Sales Act, the proposed sale or

credit receives a comprehensive analysis to insure that it will be consistent with our foreign and national security policy interests. U.S. economic considerations do not serve as the basis for the determination whether or not to extend credit for military sales. Economic benefits from military sales credit are, however, important and measurable in terms of favorable impact on the national economy and on our balance-of-payments problem. Furthermore, they set the stage for cash sales.

It has been conservatively estimated that 100 jobs in U.S. industry are sustained for each $1 million in foreign military sales which are financed by the credit appropriations we are requesting.

The bulk of the credit funds requested will be made available to the near Eastern countries. Latin America will be the second largest regional recipient of credit assistance. It is clear that Latin American countries feel compelled to modernize their military forces. They prefer U.S. manufactured equipment, but they have clearly established a pattern of acquiring equipment from other foreign sources if they cannot obtain the equipment they want from the United States.

The major worldwide third country suppliers of arms are France and the U.S.S.R. As a matter of interest, these countries conduct their military sales primarily for economic and political reasons. They have few, if any restrictions or ceilings to meet. The U.S.S.R. not only negotiates unit value but offers credit financing for military sales on about the same terms as those on which it extends credit for economic assistance—20–25 years at about 2-percent interest. In some cases, the U.S.S.R. utilizes barter arrangements as means of loan repayment.

Parenthetically, I might add at this point that there are indications that the Soviet Union exported more supersonic aircraft and surface-to-air missiles during the period 1967–71 than all other world suppliers combined.

We do not contend that we should offer credit to selected Latin American countries, or any other country, on the same terms and for the same reasons as do the U.S.S.R. and France. The United States should, however, offer credit assistance to selected Latin American countries in support of their modernization efforts, which are not overly ambitious—on the whole, less than 2½ percent of their GNP is spent for defense. By so doing, we can preempt the development of major third power military influence in Latin America in order to serve our own national interests in the region.

Mr. Chairman, we seek this committee's favorable consideration of appropriations for the fiscal year 1974 grant military assistance and foreign military sales credit programs reflected in this year's department of defense congressional presentation document. Inadequate funding of the security assistance program such as that for fiscal years 1972 and 1973 precludes effective implementation of the "Nixon doctrine." I therefore urge your continued interest and support for the essential programs we have discussed today.

STATEMENT OF THE CHAIRMAN OF THE JOINT CHIEFS OF STAFF

Admiral MOORER. Mr. Chairman and members of the committee: I am pleased that you have again afforded me the opportunity to present a military assessment of the 1974 security assistance program. This presentation should be considered a continuation of the Military

Posture Statement which I delivered to the Armed Service Committees and Defense Appropriations Subcommittees earlier this year. The conclusions reached in that statement must be considered essential prolog to this appraisal. The following military realities are of particular importance:

The ABM Treaty and the Interim Agreement on Strategic Offensive Arms reflect the relative strategic parity that now exists between the United States and the Soviet Union.

The Soviet quantitative strategic superiority in the number of missile launchers, megatonnage, and throw weight is compensated for by U.S. quantitative superiority in numbers of warheads and our overall qualitative strategic superiority. It should be noted, however, that the Soviet Union is steadily narrowing our technological lead and has the potential to overtake our quantitative lead in numbers of warheads.

The fundamental change in the overall strategic balance, reflected above, places greater emphasis on general purpose forces, while at the same time, political, fiscal, and manpower realities have prescribed smaller U.S. general purpose forces.

Our potential adversaries continue to improve their large general purpose forces, particularly with regard to modernization of weapons and equipment.

It is against this background that we must consider the role played by our allies and examine the impact of the security assistance program. A judicious and viable security assistance program supports our efforts to maintain a deterrent against aggression. Our increasing general purpose forces require that we place much greater reliance upon our allies in the common defense. As the President has said:

> Unless we in America work to preserve the peace, there will be no peace. Unless we in America work to preserve freedom, there will be no freedom * * * we shall do our share in defending peace and freedom in the world, but we shall expect others to do their share.

U.S. OBJECTIVES—I

Security assistance seeks to support U.S. security objectives in several ways. First, by enhancing effective self-defense capabilities throughout the free world and when combined with diplomatic and other actions by encouraging regional cooperation between the United States and its allies. This objective is exemplified by our assistance to Turkey, Greece, and Korea.

a. *Turkey.*—Turkey's strategic importance is based upon her geography, her determination to maintain independence and sovereignty against historic pressure from the Soviet Union, and the competent and dedicated nature of her armed forces. The constant presence of strong Soviet naval power in the Mediterranean underscores the strategic importance of Turkey to NATO, to CENTO, and to the United States. Our aid to Turkey is designed to assist Turkey in maintaining her NATO forces, including the necessary mobilization base, to facilitate Turkey's growing self-reliance in providing for her own defense needs and to improve the country's capability to provide logistics support for Turkish and allied forces.

Turkey's ground forces need increased mobility and firepower. Its navy is handicapped by ship obsolescence and its air force urgently requires replacement for its older fighter aircraft. The magnitude of

current and prospective defense requirements far exceeds that which the Turkish economy can reasonably be expected to support. Grant aid in the amount of $85.5 million is proposed for Turkey in fiscal year 1974 and is required to provide armored personnel carriers, tactical communications, tank and antitank weapons, and war-reserve munitions. In the absence of this program, Turkey's ability to perform her essential role of protecting the southeastern flank of NATO would be seriously degraded with an increase in the risks to essential U.S. interests. In this regard, Mr. Chairman, I attended a NATO meeting held in Turkey during May of this year and would like to reaffirm the importance of our security assistance program to Turkey and the importance of Turkey to the defense of the free world. I would be glad to comment on this further, if you desire, during the question period.

b. *Greece.*—Greece is located in a central position with regard to the strategic areas of the Turkish Straits, the Suez Canal, and the Hellenic Thrace. The Government of Greece announced its decision to terminate grant aid, effective January 1, 1973. Sixty-five million dollars in FMS credit is required to permit Greece to complete the financing of its purchase of aircraft for the F–4E squadrons and other high-priority equipment required for force modernization. This example of increased self-sufficiency on the part of a former grant aid recipient belies the allegation that this program is a static holdover from the post-World War II era.

c. *Korea.*—The strategic importance of the Republic of Korea stems not only from its proximity to the Peoples Republic of China, Soviet Union, and Japan, but also from the nature of its military forces and facilities. These facilities and forces are key elements in the U.S. forward defense strategy in Northeast Asia. In unfriendly hands, the Republic of Korea would pose a major threat to U.S. security interests by serving as a platform for aggression against the Japanese homeland and other islands to the south. The Korean people have determinedly resisted continued Communist aggression and have remained a staunch and loyal ally. In order to assist in maintaining the Republic of Korea as an independent nation, the United States initiated in fiscal year 1971 a Korean force modernization plan. The reduced level of funding for MAP in fiscal year 1972 degraded this plan by some $85 million and prohibited reaching our planned objectives. Similarly, reduced funding in 1973 severely constrained the overall program. The objectives established by the 5-year plan remain valid and implementation is essential to the maintenance of a credible deterrent posture in the Republic of Korea. The program for fiscal year 1974 includes $238.8 million in grant assistance and $25 million for FMS. Any significant reduction in grant aid would seriously jeopardize the modernization plan. The Republic of Korea has based its defense plans on the accomplishment of the 5-year modernization plan and regards the U.S. contribution to this program as an indicator of our commitment to treaty obligations. We should not abandon our interests in this area.

II

Second, our security assistance program supports our security objectives by enabling U.S. allies and friends to maintain internal security and counter aggression individually or with regional assistance

without direct engagement of U.S. forces. It is essential that our friends and allies maintain the capability to resist internal subversion and to maintain the peace in the face of local rivalries. They must be strong enough to cope with such strife without our involvement. If we are to honor our treaty commitments, and we must, it is essential that our allies create an ability to deter subtheater localized aggression to a greater extent than in the past. The Philippines, Thailand, and Cambodia are examples of countries in which we are striving toward this objective.

a. *Philippines.*—Our ties with the Philippines are bound in history and formalized under SEATO and our bilateral mutual defense treaties. Economic growth of the Philippines, since its independence from the United States was granted in 1946, has been slow and is still insufficient to permit the country to meet its full military requirements. This is particularly true in the face of the current insurgency. The people of the Philippines require assistance to modernize their armed forces and their constabulary.

The security assistance material program amounting to $19.3 million and the $3 million FMS credit are designed to provide mobility, firepower, and communications—the three basic elements required to combat insurgency forces. We are providing helicopters and transport aircraft, machine guns, recoilless rifles, and other weapons, together with long-range communications equipment. In order to assist the Government of the Philippines in improving their antismuggling capability and logistics support, we are also providing naval patrol and mobility aircraft. Through our longstanding association with the Philippines, to include the security assistance program, the United States has had unimpeded use of bases such as Clark Air Base and the naval base at Subic.

b. *Thailand.*—Politically, Thailand has a leading position among Southeast Asian nations. It is a major rice producing and exporting country. Its armed forces and geography contribute greatly to the growing stability in that unhappy part of the world and to SEATO. The Thai Government has permitted us to maintain on her soil bases for the military forces necessary to support the U.S. interests in Indochina. The internal stability and security of Thailand have been threatened by a Communist inspired and supported insurgency. Countering this insurgency is the responsibility of the Thai Government, but they cannot fully discharge this responsibility without technical and material support from the United States. Our assistance program is designed to assist in the training and development of the Thai armed forces so that they can maintain internal security and stability and be able to conduct effective military operations, in conjunction with allies, in the event of a major external aggression. We are requesting about $60 million in grant aid so that the Thais may modernize their armed forces and increase the level of operations against the insurgents. We will provide aircraft, vehicles, weapons, ammunition, and communications equipment. We, of course, anticipate reducing our grant aid as the Thai capability to counter the insurgency is achieved. The Thais will then assume more of the operating costs now made by grant aid and will acquire equipment through cost-shared procedures and FMS. An independent and friendly Thailand serves as a stabilizing

influence in the entire Southeast Asia area. Our assistance is necessary to preserve this influence.

c. *Cambodia.*—Unfortunately, in spite of numerous efforts to establish a cease-fire in Cambodia, continuing hostilities require that substantial grant assistance be provided the Government of Khmer Republic, so that it may establish and maintain forces capable of sustaining its independence. A major obstacle in this endeavor has been the fragmented organization of the insurgents, which has resulted in the absence of a single person in authority with whom to negotiate. The Democratic Republic of Vietnam does not appear to be inclined either to negotiate an end to the fighting itself or to pressure other insurgent groups to negotiate. Currently, there are at least 70–75,000 troops located in Cambodia opposing the government of the Khmer Republic, approximately one-third of which are Vietnamese. The U.S. assistance programs are designed to help develop light infantry with limited artillery and air support. The $167.2 million program for Cambodia is intended to provide her with the wherewithal to resist aggression on the ground. Of course, Khmer requirements for external assistance are directly related to the prospects of a Cambodian peace settlement. The Khmer Republic, while maintaining a neutral political stance and continuing diplomatic relations with the Soviet Union, East Germany, Poland, Bulgaria, and Czechoslovakia, has determined to resist the North Vietnamese invasion and maintain the Khmer nation as an independent country in Southeast Asia. Our current security assistance program has now become even more essential to this effort with the establishment of a legislative deadline for ceasing U.S. combat air operations in Cambodia.

III

Third, providing all or part of the quid pro quo essential for rights, authorizations, and facilities arrangements. We have global interests which are vital to our continued economic and political survival. Our forward defense strategy is designed to protect these interests, and advance basing helps insure the result.

Spain.—The U.S. military assistance being provided to Spain, is a part of the compensation called for by the 1970 Agreement of Friendship and Cooperation. Spain is of strategic importance because it dominates the western approaches to the Mediterranean and provides major air and naval facilities. The agreement enables us to maintain these important facilities until 1975. The $3 million grant aid contained in the fiscal year 1974 request will provide for Spanish force modernization and contribute to closer Spanish associations with Western security interests.

IV

Finally, fostering favorable attitudes toward the United States and its policy and encouraging recipients to pursue military objectives compatible with U.S. military strategy.

Latin America.—Latin America represents an excellent example of this objective. We have had continuing interests, as well as long standing friendly relations, with most of the nations of Latin America.

The objective of security assistance in this area is to insure the continuance of our traditional effective ties with the armed forces of the region. We believe that our minimum levels of military assistance help to prevent the establishment of a military power base hostile to the United States in this hemisphere.

TOTAL FORCE CONCEPT

Mr. Schlesinger has already alluded to the total force concept. I would like, however, to add a word of my own. The total force concept is implemented by capitalizing on the potential of our available resources and assets, to include the military forces of our allies. It follows, of course, that reliance upon our allies requires that their forces be manned, trained, equipped, and combat ready. Otherwise, such reliance would detract from our own security. I cannot stress too strongly that the alternative, as unpalatable as this may be today, is larger U.S. general purpose forces. The total force concept will acquire purpose and credibility only if we assist those nations with whom we have mutual security interests. An inadequate security assistance program could, therefore, jeopardize our existing commitments, both in a regional and a bilateral sense, and thereby increase the risks to our own vital interests.

FOREIGN MILITARY SALES

The foreign military sales position of the security assistance program yields certain indirect military and economic benefits which impact favorably on U.S. security interests and deserve some examination. The volume of U.S. foreign military, Government-to-Government, and commercial sales equaled $1.4 billion in 1970, $2.6 billion in 1971, and $4 billion in 1972. Projected figures for 1973 and 1974 are $4.5 and $5.4 billion, respectively. These sales have had a significant favorable impact on our balance-of-payments problem and produce major benefits in terms of maintaining U.S. defense production lines and cost reductions associated with sharing the overhead for U.S. equipment.

I am not unaware of the criticism of any arms sales and the legitimate concern for channeling the scarce resources of developing countries into economic and domestic programs. But we cannot dictate to other nations. If a nation is convinced that its security is threatened and judges its arms requirements differently than we do, our ability to affect its decision is limited to our power to persuade. Our power to persuade is dependent upon the good will, the confidence, and trust we have developed with the military leaders, governments, and people of these countries. If we refuse to provide the military equipment these nations feel is necessary to their security, the choice they face is to forgo the material they consider essential to the continued development of their armed forces or to acquire it from either Western Europe, the U.S.S.R., or the PRC. Experience has demonstrated that the choice is an easy one. When we have been unable to sell U.S. military material or services, our friends and allies have turned to other sources. These sources often provide material far more sophisticated and far more expensive than otherwise available U.S. equipment. If we provide the material, our power to persuade is enhanced and our ultimate purpose—peaceful evolution and development—is served.

SECTION 514 AND MAAGS

No discussion of the security aspects of the Foreign Assistance Act would be complete without commenting upon the adverse effect of section 514 of the act and noting the role played by our MAAG's and missions.

a. *Section 514.*—We urgently request the repeal of section 514 of the Foreign Assistance Act, which requires a 10 percent payment to the United States for grant aid and excess defense articles, except under limited circumstances. I recognize that the intent of this provision was to insure budgetary discipline by the host country. My discussions with military leaders, however, clearly indicate that our friends and allies believe that such a requirement is not only a real reduction in resources available for national defense, but also officious intermeddling and insulting. In more than one nation, friendly relationships have been damaged by what the host country conceives of as our effort to couple the needs of the common defense with the desire to dictate how they should run their national economy.

b. *MAAG's and Missions.*—The role of military assistance advisory groups is broader in scope than the processing of military assistance program requests, training quotas, and sales agreements. The chief of the advisory group, under the general supervision of the Ambassador, serves as the Secretary of Defense's representative with the Ministry of National Defense and is a high-level adviser to the military establishment of the host government. He also serves as the essential link between the Commander in Chief of the U.S. Unified Command and the Joint Chiefs of Staff on one hand, and the host government on the other. In the past 10 years, advisory personnel man-years have dropped from 9,553 to 2,280. In accordance with section 512 of the Foreign Assistance Act, a reduction in assigned U.S. military personnel in excess of 15 percent has been made.

Many ongoing projects whereby military assistance functions are changing from the traditional unit advisory tasks to higher level management activity aimed to improving long-term country self-sufficiency would be jeopardized by any significant reduction now in MAAG strength beyond that already planned. Additional significant reductions now could force the advisory effort to deteriorate to an unacceptable degree. Also, most countries view continuing reductions in MAAG strength as another indication of lessening U.S. interest in support of their self-sufficiency—a signal we certainly do not wish to make at this time.

SUMMARY

In conclusion, grant aid and foreign military sales are integral parts of our national security program and must continue to be based on the actual and growing military capabilities of our potential adversaries. We must also continue to insure adequate protection for those global interests which are vital to our economic and political survival. The total force concept is an important element in this defense strategy. An effective security assistance program provides only those essential resources, otherwise unavailable, to assist our allies in sharing the defense of the free world. An inadequate security assistance program could jeopardize our existing treaty commitments and cast doubt on our continued presence in forward defense areas which are essential to our national security. Continued eroding of our security assistance

program will most likely result in increased requirements in U.S. force levels to meet our national security needs, with a resulting larger total national security expenditure.

The Nixon doctrine envisages our allies relying to a greater extent on the use of their own resources, particularly manpower, in the deterrence of aggression and the common defense. The security assistance program, through the provision of minimum essential material and training, serves to help our friends and allies to help themselves. This raises the threshhold of direct U.S. involvement, and it also yields certain military and economic advantages that impact favorably on U.S. security interests. Multiple advantages also accrue to the United States through the foreign military sales program. In the interest of peace and national security, I strongly urge that you support the proposed security assistance program for fiscal year 1974.

FISCAL YEAR 1974 MAP AND FMS ESTIMATES

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

Mr. Chairman, we are so happy you could come by.

Mr. MAHON. I have no questions. I just wanted to stop by and extend a welcome to the Secretary.

Mr. PASSMAN. I just mentioned that under the policy on which we proceed each committee member is limited to 5 minutes the first time around, and because of the large subcommittee we pretty much have to abide by those rules. We want you to be as complete as possible but your answer should also be brief.

Before yielding, I would like to state for the record that your 1974 estimate for military assistance is $685 million, is that correct?

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. The foreign military credit sales request for fiscal 1974 is $525 million?

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. That is the new obligational authority?

Secretary SCHLESINGER. That is new obligational authority, I believe.

Admiral PEET. Yes, sir.

Mr. PASSMAN. At this time I would like to yield to Mr. Shriver.

ELIMINATING DOD "LUXURIES"

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. Secretary, I want to welcome you to these hearings and to wish you well as you assume your new responsibilities.

Secretary SCHLESINGER. Thank you, sir.

Mr. SHRIVER. Also, I want to welcome the other gentlemen with you and our former colleague, John Marsh.

In your July 3 remarks, Mr. Secretary, at the Pentagon, you told the personnel in your department they would have to accept adjustment and change and to do without what you described as "luxuries."

Will you expand on that? What you are referring to when you ask them to do without luxuries?

Secretary SCHLESINGER. I think I had primarily two things in mind. One is there has been an understandable tendency, with the relatively open budgets of the past, to associate some gold plating with the procurement of certain types of military hardware. Capabilities were

built in that were not really worth the cost, for example. I think that is what I had reference to primarily. In addition to that, there are some areas, such as the enlisted aides, in which we have been making an attempt to cut down and which have received a certain amount of attention. These are the types of service which were quite understandable in accordance with the past mores of the society but which seem to be less acceptable in today's society.

REBUILDING NORTH VIETNAM

Mr. SHRIVER. In March of this year, your predecessor, Mr. Richardson, said some funds for rebuilding North Vietnam could come from the Pentagon budget, although no funds were included for that in the 1974 request. Could this be done without congressional approval?

Secretary SCHLESINGER. No, sir.

Mr. SHRIVER. There are no funds anywhere in the 1974 budget for that?

Secretary SCHLESINGER. No, sir.

Mr. LONG. There are no funds for what?

Mr. SHRIVER. For rebuilding North Vietnam. I was interested in your observation on page 7 as to what military assistance cannot do. I agree with you that the expectations regarding this program have at times been exaggerated.

Secretary SCHLESINGER. That is right.

LONG-TERM EFFECTIVENESS OF AID

Mr. SHRIVER. Would you further comment on the long-term effectiveness of these expenditures in terms of U.S. strategic interests?

Admiral Moorer, you might want to add to whatever he may say in that regard.

Secretary SCHLESINGER. I think that military assistance contributes toward maintaining a collection of states which stand ready to resist the incursion of other states that are hostile to the United States of America. As we review military assistance, I think that we must keep in mind that there is fluidity in the politics of any recipient nation, but that the foundation on which military assistance rests is that the large majority of these states, when given relatively limited assistance by the United States, will hopefully, continue to be friendly toward the United States or, at a minimum, to resist the pressures from those states overtly hostile to the United States.

Because of this fluidity, I think that one must recognize that any particular recipient nation could slip over the edge because its politics were reversed, and in some sense, that money would have been wasted. So there is an element of risk here. When one is purchasing military hardware for the United States, one has a high degree of security that that hardware will be available to us in our defense policies. One has a greater risk associated with the recipient states.

Nonetheless, given the world in which we live, military assistance programs have a very substantial role to play. First, providing that margin of resources which are reinforced by a desire for self-help on the part of the recipient nation may permit it to withstand external pressures which we regard as contrary to our interests. Second, in a

number of cases we maintain friendly relations with a country through the provision of very limited amounts of financial assistance, and in some cases obtain our quid pro quo for base rights, or the equivalent.

Mr. SHRIVER. Do you want to comment further?

Admiral MOORER. I certainly concur in what the Secretary said, and would go on to say that from a purely military standpoint, there are some intangibles that flow from the military assistance program in terms of the ability to communicate, the standardization of weapons systems, the application to what we call the "total force concept," and so on, that could not be obtained if the weapons came from other sources. I think it has been fairly well proven, for instance, in Latin America, where we had restrictions, the countries simply turned to others for the assistance, and in the process we lost not only the rapport and cooperation I mentioned, but also from our own selfish point of view, we lost the impact on our economy.

Mr. SHRIVER. Where do they turn?

Admiral MOORER. In Latin America there have been cases where they bought ships from England and missile systems from Germany; frequently, all over the world. France has had a most active military sales program throughout the world.

Mr. SHRIVER. Thank you, gentlemen.

My 5 minutes are consumed, I will be back later.

Mr. PASSMAN. Thank you, Mr. Shriver.

Mr. Long?

LIMITING ARMS SALES TO LATIN AMERICA

Mr. LONG. Has any attempt been made, Mr. Secretary and Admiral Moorer, to work out agreements with France and Britain and other suppliers to cut down on the sales of arms to Latin America—that is, an arms nonproliferation treaty?

Secretary SCHLESINGER. I am not familiar, Mr. Long, with any such attempt.

Mr. LONG. We are helping them through NATO and defending them. Don't we have some leverage there to use so that they will stop selling all these arms and so that we won't have competition between "merchants of death"?

Secretary SCHLESINGER. Let me come back to that question after making one other observation. A difficulty with the attempt to preclude sources of supply abroad for Latin America is that there is always somebody, as you will remember well from your days as a fellow economist and professor, who remains outside the cartel. In this case, the Soviet Union remains outside of the cartel, and one of the problems in this area has been that the Soviet Union has been willing to provide arms where the West has refused to do so. As a consequence, that represents an entering wedge.

Mr. LONG. Do we not have some leverage over the Soviet Union to persuade them to agree to an arms nonproliferation treaty in view of our selling them grain and our assisting the development and modernization of their civilian industry, which they seem to want very desperately?

Secretary SCHLESINGER. That is an interesting point with regard to the attempt to work with the Soviets. To my knowledge there has not been any attempt as yet.

Mr. LONG. Our Government did not make any explorations along the line of controlling arms traffic when the Soviet Union came to us for grain?

Secretary SCHLESINGER. Not to my knowledge.

CAMBODIA BOMBING REPORTS

Mr. LONG. I am sure you are as disturbed as everyone by the falsification of reports of some of the bombing in Cambodia—the bombing that recently transpired.

Can you tell us whether you now have adequate safeguards to insure that no falsified reports on where our military assistance goes are prepared—so that Congress knows that the military assistance for which it appropriates money goes where it was intended to go?

Secretary SCHLESINGER. Let me say with regard to that, Mr. Long, that we all would repudiate falsification in any form. I think in this particular case that the charge has gotten out of proportion. Careful records were kept with regard to the bombing, and these records were available to all who had a need to know. There was a cover story, as we well know, because of the diplomatic problems associated with the bombing.

Mr. LONG. You mean some people in Congress were given the correct information?

Secretary SCHLESINGER. Yes, sir.

Mr. LONG. But the whole Armed Services Committee or Congress in general was not told about this?

Secretary SCHLESINGER. That, of course, is a decision of the chairman of whichever committee is informed. Each chairman decides how he wants to handle that material. I was really referring to the need to know within the executive branch.

Mr. LONG. Don't you think that all the Congress needs to know whether we are bombing in Cambodia without any announcement? In fact, when statements were made that we were not?

Secretary SCHLESINGER. As you recognize, I was not here at the time.

CONGRESSIONAL NEED TO KNOW

Mr. LONG. I understand. I am not blaming you. I am looking to see whether we can work out safeguards to make sure that this does not happen again or does not happen for the military assistance program.

Secretary SCHLESINGER. I believe that we in the executive branch should be responsive to the way they wish to manage affairs on the Hill. If it is the desire in the Congress that a committee should be briefed in its entirety, that is the way the executive branch should respond.

Mr. LONG. I wonder whether that means that you feel that this falsification of reports of bombing sorties over Cambodia was actually instigated by the Congress itself or the congressional leadership and you folks went along. Is that what you are saying?

Secretary SCHLESINGER. No, sir; I hope there is no hint of my saying that. The authorization came down from the very top, from the National Security Council. It should be underscored that the military services responded to an authorized command, and they responded as they should.

Mr. LONG. Basically it came from the President, the services carried out their orders.

Secretary SCHLESINGER. That is right.

Mr. LONG. And certain leaders in Congress were briefed, is that right?

Secretary SCHLESINGER. That is right.

Mr. LONG. But not Congress as a whole.

Secretary SCHLESINGER. That is right.

Mr. LONG. I think that puts a heavy burden on the congressional leaders that knew about that who did not explain it to their colleagues in Congress.

FACTUAL CONFUSION OVER BOMBING

Secretary SCHLESINGER. Originally, Mr. Long, there was a cover story for reasons that I think are apparent. The cover story is one that has frequently been used. It seems to me that this may have gone awry in a number of respects. One of these is that after the need for maintenance of cover disappeared, the data base that is used at the DOD was still cranking out answers to questions, and it cranked out erroneous answers.

Mr. LONG. The bureaucracy kept grinding false answers out after there was no longer any desire on the part of the leadership to do this.

Secretary SCHLESINGER. That is right. The left hand did not know what the right hand was doing under those circumstances, as a result of which there was a goof, for which I think we in the Defense Department owe the people on the Hill an apology. But I restrict this to these answers to questions that came from the Hill.

The raids themselves were done under the appropriate authority, and while one may question the desirability of those raids and the desirability of the orders, I do not think—and I am not suggesting that you do, Mr. Long—one should criticize the Air Force or the other services for carrying out those duly authorized raids.

Mr. LONG. I think there is plenty of blame to go around. I wonder what possibility remains in the case of the foreign-aid program, whether military or economic, for the left hand not to know what the right hand is doing.

NEED FOR COVER STORY

Secretary SCHLESINGER. There is always that possibility and we will strive to guard against it. What I tried to indicate was that in the case of the Cambodian bombing, we in the Department meticulously kept accurate records so that everybody who was within the prescribed list of those with a need to know had accurate information. That accurate information has been given to the Hill. There was the cover story for general consumption, but there was no desire to falsify the record. There was a goof in responding to some questions from the Hill in this last year or so, but that was inadvertent.

Mr. LONG. So any falsification of the records came about as a result of bureaucratic oversight, you would say?

Secretary SCHLESINGER. The erroneous response to the questions that came from the Hill in the last year, roughly, was merely a plain glitch.

Mr. LONG. I don't know what a "glitch" is.

Secretary SCHLESINGER. A mistake.

In the earlier period of time, a deliberate decision was made that there would be a cover on these raids. As you know, there are covers in many cases involving either military operations or operations which, for a variety of diplomatic reasons, cannot be openly admitted. But I want to distinguish very carefully between a cover story and any intention whatever to cover up, which is a phrase that has been used in the press.

Mr. LONG. If I may say one last sentence, and this is all I have to say, it does seem to me that these cover stories are designed more to cover information from the American public than they are from the enemy. Because, as has been pointed out, the Cambodians knew they were being bombed, so any cover story was really protecting this information from the American people. And in a democracy it does not seem to me that this is right.

Secretary SCHLESINGER. I hope, Mr. Long, we are not guilty of that. If I may go off the record for a moment.

Mr. YATES. Mr. Chairman, if I may, what is the difference between a cover and a coverup?

[Discussion off the record.]

Admiral MOORER. If I may, Mr. Chairman, you have to remember also at that time, Mr. Long, that the diplomatic relations with Cambodia were being broadened—we established the Embassy in Phnom Penh. You recall that Senator Mansfield paid a visit to Sihanouk at about the same time. On the other hand, this followed immediately after the time that President Johnson ordered the bombing halt and negotiations were just getting off the ground in Paris. They never really got off the ground, but were just getting started.

One of the understandings, so to speak, when the bombing was ordered, was that the North Vietnamese would not shell cities. But at that particular time they were shelling Saigon frequently, as you recall. In addition to that they had the three divisions, the 5th, 7th, and 9th, that were operating against Saigon and retreating back into the sanctuaries in Cambodia. The United States at that time was in the position of publicly announcing understandings, then, the North Vietnamese deliberately violated them and the United States did nothing about it. So this was part of the overall pattern of defense against this flagrant violation that we were subjected to. We did not want to reveal it to the public because of Sihanouk's request.

Secretary SCHLESINGER. Mr. Chairman, there was a question about the difference between cover and a coverup.

COVER VERSUS COVERUP

Mr. YATES. Your response to Mr. Long sought to make a distinction between cover and coverup and I don't believe the record adequately reflects that and that is why I followed up by asking whether you would state for the record the difference between the cover and coverup.

Secretary SCHLESINGER. The difference is that in the case of a coverup, something which is inappropriate has become public, or threatens to become public, and the parties who feel guilty about the reprehensible action attempt to hide it. By contrast, a cover is planned and used in advance rather than after the fact, because knowledge about mili-

tary operation, if it were disclosed, would be helpful to the enemy. Or in this case, if something were to be openly admitted, it would be diplomatically damaging to the United States. Under those circumstances, a cover story is provided to limit those who know the actual range of operations.

Cover is a traditional device. I can point out hundreds of occasions in which this device has been used. During the Second World War, for example, a cover was adopted just before D-day to mislead the Germans into believing that there would be an attack on the Calais coast rather than in Normandy, where it actually occurred.

The purpose was to enable the Nation to carry out an operation effectively; in that case a military operation, in this case a political-military operation. But the cover is designed to help the country. A cover-up is by contrast designed to prevent guilty parties from having their misdeeds brought before public attention.

As I said before, I believe that the Air Force acted with great skill in this enterprise, and, since a legitimate order came down from above making this an authorized operation, I do not believe that the people in the military should be criticized.

WHEAT SALES TO RUSSIA

Mr. PASSMAN. Thank you, Mr. Secretary.

Thank you, Mr. Yates.

I think I should maybe make one observation for the record at this point because if we let these things build up later on we don't get to ask the questions. With respect to the wheat sale to Russia, my people were very happy—that is, those who had their investments in surplus grain and I am sure I speak for the gentleman from Kansas that we were very happy to see this large wheat sale—maybe our hindsight is better than the foresight. But on the other hand we did not do anything for Russia that we did not for other nations.

We were glad to make the sale. We had a tremendous surplus of wheat and rice. The very fact that at a subsequent date it appears that a scarcity has developed does not change the original sale. We did not provide any subsidy to Russia that we did not provide to all other nations where we were making sales, isn't that correct?

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. If we had a surplus today people would be applauding this sale and not criticizing it. None of us could look into the future and anticipate that we would be approaching a shortage of food. So I think the record should say that we made no concession to Russia that we didn't make to other nations and we are getting something back for it, either dollars or gold, and we expect to get paid for this wheat, the part that has not been paid for already.

Mr. Miller?

CONTINUING NEED FOR NATO

Mr. MILLER. Thank you, Mr. Chairman.

Mr. Secretary, Admiral Moorer, Admiral Peet, we are glad to have you before the committee.

I see a couple of things, Mr. Secretary, in your statement that I would like to pursue or at least get a little more detail. You say that

the world has grown economically stronger and more diverse and the nature of requirement for security assistance has changed. You go on to state that Europe has received the overwhelming portion of our military aid in the early fifties, and yet at the present time it is a very small amount that they would be receiving. Are you taking into consideration NATO and can you tell us about the continued need for NATO now that we have wheat sales to the Communist bloc and now that we have the feed grain sales to mainland China? Will we continue to have the need for NATO that we have had in the past?

Secretary SCHLESINGER. In my judgment, very much so. It was not my intention to get beyond the area of military assistance. The growth of the European economies permits them to provide their own military hardware. In fact, in a number of respects the Germans are providing certain classes of hardware for us at the present time. But we will continue, in my judgment, to need NATO as long as there is a substantial military presence to the east of the Elbe River, and as long as we wish to maintain a military balance on the European Continent. At the present time the United States provides something on the order of 28 percent of the ready resources or forces. Our European allies provide something on the order of 72 percent of those ready forces. American leadership is probably necessary in order to make the Alliance work, and that requires some commitment of the U.S. forces.

NO FORCE REDUCTIONS

Mr. MILLER. But you would not say that there is a possibility that we could reduce our forces in Europe on the basis of the commitments that have been made between the two sides.

Secretary SCHLESINGER. No, sir.

There is no basis for a reduction whatsoever. In fact, one of the parties to whom you refer, the Chinese, have been going around in both Europe and the United States, pointing out that the Russians are not to be trusted and there is a requirement for military strength in Europe. The Communist bloc at this point is rather divided, if you accept the Chinese view of this. There is no encouragement to be drawn with regard to any kind of relations that we have developed with the Russians.

EASING BALANCE OF PAYMENTS

Mr. MILLER. We have heard quite a bit of discussion about this in the past but as long as we have our forces in Europe we will have this great problem of the balance of payments.

It has been stated that we could supply the equipment there but not necessarily have our forces there.

Is it possible to remove some of the personnel from Europe at the present time?

Secretary SCHLESINGER. I think what your question suggests is that we must have a solution to the balance-of-payments drain represented by the stationing of our forces in Europe. We seek to isolate from the rest of the balance of payments those reductions in available foreign exchange which come from stationing our forces in Europe.

I believe we can work out a mechanism to achieve that and at the same time retain our forces in Europe.

EFFECT OF DEVALUATION ON GI'S OVERSEAS

Mr. SHRIVER. If the gentleman will yield for a moment, I would like to ask one very brief question. What effect does this devaluation have on dependents over there? Our GI's are now having a real problem.

I am getting some letters and every Congressman is on this subject.

Secretary SCHLESINGER. To the extent they do not live in Government quarters or must live on the economies of these countries, a devaluation of the U.S. dollar gives them less accessability, given their level of incomes, to foreign exchange. If they are living in quarters which they rent from private landlords in Germany, the number of dollars that they have to pay for their rent increases.

Similarly if they draw on the German economy for food or any——

Mr. SHRIVER. I understand that. But isn't one answer to bring some of them home? If the stories we hear are true, it is costing our own people much more to live over there.

Secretary SCHLESINGER. I think the answer whether to increase or decrease our forces in Europe should be determined by the perception of the military risks to the NATO Alliance rather than by the hardships of any individual soldiers over there.

Mr. SHRIVER. Well, now——

Secretary SCHLESINGER. There are other ways of dealing with this problem, and I think we can talk about other methods of providing living accommodations for those of our forces in Europe who do not have Government accommodations. There are methods of subsidization.

In my judgment it would be an error for us to change our military posture in accordance with the fluctuations of the U.S. dollar.

ASSURING AN ENERGY SUPPLY

Mr. MILLER. Turning to another subject, Mr. Secretary, we are all concerned with the energy problem and the fossil fuel shortage we have in this country at the present time.

We are seeing that much of our military assistance would be centered to the Northeast Asia, Southeast Asia, and the Middle East where we have found quite a bit of petroleum. How does our military assistance program tie in to help assure us in some way of ample energy to this country? Do you in any way evaluate this in our military assistance program?

Secretary SCHLESINGER. You are talking about the general dependence of the American economy on foreign sources of supply.

Mr. MILLER. Yes.

Secretary SCHLESINGER. I think our military assistance plays a major role in stabilizing the Middle East, which has become so important as a source of energy, not only for the United States but also Western Europe and Japan, with whom we are closely associated.

As you know, there is a fair degree of turmoil or potential turmoil in the Middle East. There are certain nations in the area that are friendly toward the United States, or have a close relationship with the United States—Jordan and Saudi Arabia. There are a number of other states that have either fallen into the camp of the Soviets, or which have radical regimes which seek to disrupt the relationships that exist be-

tween the moderate regimes and the United States. To the extent that we can shore up the moderate regimes with our military assistance programs, they play some role in stabilizing the area.

I think we are insuring, or doing our best to insure, a continuing flow of oil from the Middle East to the United States and to our allies in Western Europe and Japan as well.

BOMBING DEADLINE

Mr. MILLER. I have one final question.

As I recall, Mr. Secretary, a couple of weeks ago you indicated that the President may have to ask for an extension of the August 15 bombing deadline, is that correct?

Secretary SCHLESINGER. I think I was asked the question by a reporter: Was it possible that the President might ask for an extension? I said it was quite possible.

Mr. MILLER. I see. Then you have nothing further to add to that at this time?

Secretary SCHLESINGER. No, sir.

Mr. MILLER. Have the conditions changed?

Secretary SCHLESINGER. I think there has not been any fundamental change of conditions and that it may well remain a possibility.

Mr. MILLER. Thank you.

Mr. PASSMAN. Thank you, Mr. Miller.

Thank you, Mr. Secretary.

Mr. Bevill?

Mr. BEVILL. Thank you, Mr. Chairman.

I certainly want to welcome the Secretary and our old colleague, Jack Marsh, but I want to especially welcome our native Alabamian, Admiral Moorer. Alabama is very proud of the job he is doing and we are very happy to have you with us this afternoon, Admiral.

Admiral MOORER. Thank you, sir.

CAREER MILITARY PERSONNEL

Mr. BEVILL. Mr. Secretary, I have just one or two short questions that I want a little information on. One of the things I keep running into is that so many of our young men that want to be career military men are becoming so discouraged. I realize this probably will be a problem a hundred years from now, but I am hoping that an effort can be made to encourage these young men—I can name two from my district that went into the service for the purpose of making a career, and I know we are not going to have too many people seeking a career in the military, or it appears that way—one is stationed, a new lieutenant, in Germany, and the thing you were talking about there is working a hardship on him. There are little things like that, not only that which hit him, 30-percent decrease in his pay—the two 10-percent devaluations, but the Germans increase the value of their money about 10 percent—he is drawing somewhere between 60 and 70 percent of the purchasing power that he had just a few months ago in Germany.

He is a young married man, so he is really having a difficult time paying his bills, this has discouraged him a great deal.

On top of that I understand the military canceled out the old standing provision to ship his car back when his tour of duty ends there. So it seems that these things are kind of piling up on them.

Then there is another one. I am throwing these out as examples, and I hope they will be of some help. I am not being critical when I say these things, but I am hopeful that overall there will be some effort, if there is not any now, to alleviate some of these things. This man needed a few days to get married—he had gotten orders to go to Korea—I called Army liaison, which I don't usually do, and they were very cooperative.

But this was one of the young men in my neighborhood and I knew the physical condition of his parents—and he was gung ho to have a military career, going in as a private and was real pleased with the military—when he finished school, he was told you don't have time to get married, you are going to Korea. Actually, he did manage to get married. When I called the head of liaison, I was told, or I had the feeling that they called the company commander and they called back and gave me the report. This was a situation that I felt needed special attention because I knew this young man was interested in being a career man and they discouraged him right off the bat. He was taken off the track right quick.

These are things that I think are being overlooked. I think too many of these decisions are being made at the company or battalion level, and there is not enough policy along the line to encourage these young men to stay in the service and try to give them some consideration on their assignments.

Certainly being an old World War II veteran I can appreciate that you cannot let everybody go where they want to go, and that sort of thing. In this particular instance I understand there were two men wanting to go to South Korea, he wanted to stay so he could get married, did get married, but then the report I received from the Army liaison was, he will get orders tomorrow going to South Korea. He never has gotten any orders. That was the last report I got. This was a month ago. So somebody is not following through. I guess I call liaison myself once a year. I was discouraged myself with it. These are the things I throw out just for what they are worth. I hope some effort is going into trying to make these things as easy for these young men as far as their family responsibilities are concerned so we can maintain an All-Volunteer Service. These are two fine young men I have known all my life. I think it was a mistake to turn them against the Armed Services when they were set to stay in. It was done unnecessarily in my judgment.

Secretary SCHLESINGER. We will followup on this particular instance, but more generally you point quite rightly to the need for the DOD to be as attentive as it can to the people problems that we have always had and will continue to have. Some of these problems are more striking in this period of the all-volunteer force. We appreciate your drawing this particular episode to our attention and we would be happy to hear about any others that come to your attention.

Mr. BEVILL. Thank you, sir. That is all.

Mr. PASSMAN. Thank you. Mr. Bevill.

[Discussion off the record.]

BREAKDOWN OF SALES FIGURE

Mr. PASSMAN. Mr. Coughlin.

Mr. COUGHLIN. Thank you, Mr. Chairman.

Mr. Secretary and Admiral, it is certainly a privilege to have you here.

Mr. Secretary, in your justification sheets you indicate a total of $1.7 billion in total security assistance and in earlier testimony we were told of another $3.9 billion in sales of military equipment for overseas projects. Is it possible to get a breakdown of where that $3.9 million in sales goes?

Secretary SCHLESINGER. We can do that.

Admiral PEET. It is on page 90 of the Congressional Presentation Document.

Secretary SCHLESINGER. Those are not, of course, funded by the Government. They are cash sales. So the figure is much larger than the request that is being made in this budget hearing.

Mr. COUGHLIN. Thank you.

ASSISTANCE FOR KOREA

The second question I had: A major item in your request is about $288 million in security assistance for the Republic of Korea.

How much of that money will be spent in the United States?

Secretary SCHLESINGER. Virtually all of it.

Mr. COUGHLIN. Do we have any indication that a corresponding amount is being supplied to North Korea by the Communist bloc countries? It seems like an incredible amount for one small country.

Secretary SCHLESINGER. As you know, it has been the attempt of the U.S. Government to achieve stabilization on the peninsula. At this point, the South Koreans are negotiating with the North Koreans. We want to maintain a military balance, and we recognize that it will be desirable, as the Korean economy improves, for them to go out on their own, and for us to diminish the amount of grant assistance.

I do not know the amount of assistance going to the North Koreans at this point in time, but we can get a figure for you. It may be classified, but we will give it to you privately, if you like.

I think it is probably a lower sum, however, than the one we are talking about. What we are trying to do is build up the capability of the South so that they can be independent.

[The information follows:]

COMMUNIST MIITARY ASSISTANCE TO NORTH KOREA

In the period 1954 through June 1973, the U.S.S.R. and the PRC supplied over ——— in military assistance to North Korea. The value of U.S.S.R. assistance is estimated at ——— the value of PRC assistance is ———. In 1972, the U.S.S.R. supplied an estimated ——— and the PRC ———.

Admiral MOORER. I want to point out that the types of weapons that the Soviets are providing to the North Koreans are in the expensive categories—mig 21s, guided missiles, Komar missile boats, and

so on. These are sophisticated types of equipment. I am sure the cost runs into a very substantial sum, since they happen to have more missile sites and more aircraft than do the South Koreans.

SOUTH AMERICAN INCREASE IN AID

Mr. COUGHLIN. I have one final question, if I may.

In the South American area there is considerable increase in the amount of proposed assistance to both Brazil and Peru. Is there any particular reason for this substantial increase?

Is there any particular threat to those countries that warrants the increase?

Secretary SCHLESINGER. Going back to Mr. Long's earlier question, the U.S. Government is not urging any of the countries in Latin America to acquire armaments. When they get an indigenous desire to acquire armaments and turn to various suppliers, we have, for a number of reasons, urged them to be very parsimonious in the acquisition of arms. At this point in time, however, when Peru and Brazil both seek to acquire these armaments and indicate a desire to maintain U.S. influence and to avoid recourse to other suppliers, we feel that it is desirable to supply from the United States rather than for somebody else to be the supplier. There is no external threat that we can specify.

Mr. COUGHLIN. Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you Mr. Coughlin.

Mr. Roush.

EFFECT ON NEGOTIATIONS OF DEADLINE FOR COMBAT ACTIVITIES IN CAMBODIA

Mr. ROUSH. Thank you, Mr. Chairman.

Mr. Secretary, have any changes occurred since the preparation and presentation of the justification on military assistance which would dictate any changes in the program which we should be aware of?

Secretary SCHLESINGER. I do not think there are any fundamental changes.

I think that one can say that the situation in Cambodia, and perhaps the situation in the Middle East, is a little more uncertain than it was at the time that the program was made up.

Mr. ROUSH. The question was for the purpose of leading me to the next question, which involves the situation in Cambodia. The Congress with the administration fully concurring agreed on the August 15 deadline for military activities in and over Cambodia, is that correct?

Secretary SCHLESINGER. U.S. combat activity.

Mr. ROUSH. U.S. military activity in and over Cambodia, is that correct?

Secretary SCHLESINGER. Yes, sir.

I believe it is combat activities of the United States.

Mr. ROUSH. I could not remember the exact words, and I did not have them before me, but I will accept that. My point is that the administration readily agreed with the Congress on that date. Why did they agree to that?

Secretary SCHLESINGER. I can only speculate on that. I think the answer was that at that time it was hoped that by August 15 a diplo-

matic settlement might be achieved which would eliminate the need for the U.S. airpower.

Mr. ROUSH. In agreeing to that date, do you feel that strengthened or weakened your hand insofar as the negotiations?

Secretary SCHLESINGER. I cannot see how it would help in negotiations to have a date fixed in advance.

Mr. ROUSH. I can't either. That is the reason I asked the question: Why did the administration agree to the date?

Secretary SCHLESINGER. I think the answer must reflect certain other factors, such as the desire to avoid a direct confrontation between the executive branch and the legislative branch with regard to the continuing resolution authority.

SHARED RESPONSIBILITY FOR BOMBING CUTOFF

Mr. ROUSH. There would be no intent on the part of the administration to put this monkey on the Congress' back in the event the the Lon Nol government in Cambodia collapsed, would there?

Secretary SCHLESINGER. I could not speculate on that.

Mr. ROUSH. You surely can answer "yes" or "no" to that question. It is not a matter of speculation. I am merely asking you if there was any intent to put the monkey on the back of the Congress.

Secretary SCHLESINGER. Not to my knowledge. The only thing I would say in that connection is that Congress did take some vigorous action with regard to the 15th of August, and that therefore Congress will be in a position to share responsibility.

Mr. ROUSH. Yes, and it would be shared with the administration, which fully acceded to that date, is that not correct?

Secretary SCHLESINGER. I think it is a shared responsibility, yes.

CAMBODIAN MAP LEVEL

Mr. ROUSH. What effect then, if any, will the August 15 cutoff date have insofar as our military assistance program to Cambodia is concerned?

Secretary SCHLESINGER. Insofar as the Government of Cambodia continues to be able to function, the cutoff date should not have any effect on the numbers we have presented. I think that the argument over the years by those who have criticized the involvement of U.S. military forces that this should not be funded through the DOD budget but instead be MAP funded. That is precisely what is being done here; the moneys being asked for are part of the MAP grant.

I would not expect, so long as the Cambodian Government is able to function effectively, that there would be any reduction in the request.

Mr. ROUSH. At the moment you do not expect any changes in the level of military assistance to Cambodia over and above that which you have previously presented to the committee.

Secretary SCHLESINGER. I would not expect any such change at the present time.

The effect of the withdrawal of U.S. combat support does increase the burden on the Cambodian Government, and we may come to the point at which some additional MAP grant assistance should be given to that

Government. But I only want to mention that as a possibility because we have no such intention at the present time.

Mr. ROUSH. Thank you, Mr. Chairman. My time is up.

Mr. PASSMAN. Thank you very much.

Mr. Conte.

KOREAN SHORTFALL

Mr. CONTE. Mr. Secretary, welcome to the committee. I am sorry I am late. I am on the delegation entertaining the Korean members of Parliament who are here for 3 days.

The Vice Speaker spoke to us and said that 40 percent of the defense budget of Korea is for military defense of that country. You state in your statement that our plan with respect to the development of the South Korean force has fallen behind because of the limited appropriation available. You also state that the present program is designed to bring the South Koreans up to the standards without endangering their economic growth.

In the light of the lesser appropriations granted for this purpose in recent years, how much of the shortfall have the South Koreans made up?

Secretary SCHLESINGER. I am not able to answer that question now. My presumption is that this refers largely to U.S. equipment and that there has not been any substantial increase in their purchase of U.S. equipment because of the shortfall below the agreement that was entered into some years ago. The question is, With what part of the shortage they funded themselves?

Mr. CONTE. That is right.

Secretary SCHLESINGER. The answer is probably a trivial sum.

Mr. CONTE. They have shown an increasing willingness to enter negotiations with North Korea?

Secretary SCHLESINGER. Yes, sir.

KOREAN SELF-CONFIDENCE

Mr. CONTE. On significant issues in recent months, are there any indications of worry on their part of their ability to meet the challenge, or lack of confidence on the prospect of good relationships with the United States?

Secretary SCHLESINGER. I'm sorry, I missed that. Lack of confidence in what?

Mr. CONTE. Are there any indications of worry on the part of the Koreans on their ability to meet the challenge, or the lack of confidence on the prospect of good relationships with the United States?

Secretary SCHLESINGER. I think they have expressed concern with regard to their ability to bargain effectively with the North Koreans during this period of time. They are concerned with certain qualitative aspects of the North Korean posture, such as the superiority that the North Koreans enjoy with regard to tactical airpower, and these are quite naturally a cause of concern to the South Koreans.

I don't think there is any deep-seated fear that should be exaggerated.

Mr. CONTE. I have only great admiration for the Koreans, and I have shown it on this committee for the years I have been on it. I think they have done more out there than any country I ever visited. Certainly they did more whether you agree with the war or not in South

Vietnam. I think General Westmoreland said that man to man they compared with the American soldiers out there. They stuck their necks out and helped us out.

Secretary SCHLESINGER. Yes, sir.

BUDGET REPROGRAMING

Mr. CONTE. If a cease-fire is achieved in Cambodia, you note that military assistance expenditure requirements would be substantially reduced.

Secretary SCHLESINGER. Yes, sir.

Mr. CONTE. If this is the case what do you plan to do with the portion of the planned budget that would become available?

Secretary SCHLESINGER. We would certainly come back and consult with the Congress with regard to any settlements and their impact on the MAP budget. The answer to your question depends, in part, on the total resources that we get out of the Congress this year for this program.

A number of programs have been made very tight because of our attempts to deal with the situation in Cambodia. Should funds become available as a result of reduced requirements in Cambodia, we might seek relief for some of the very tight budgets for particular countries in the Middle East. But we would certainly plan to consult with you in the event that occurred.

THAILAND FACILITIES

Mr. CONTE. With the phaseout of Cambodia and the rest of Indo-China, how much need is there to maintain the military facilities and the heavy expenditures we have in Thailand?

Secretary SCHLESINGER. If at the time that we have stabilization of the conditions in Indochina generally our requirements in Thailand were substantially diminished——

Mr. CONTE. Would we turn over some of the bases? We have big bases in Thailand. Will we turn over any of those to the Thai?

Secretary SCHLESINGER. At the present time, I do not think we have plans to do so, but it is possible that we might.

SOVIET EXPORTS TO THIRD COUNTRIES

Mr. CONTE. You stated that the Soviet Union had exported more supersonic aircraft and surface-to-air missiles between 1967 and 1971 than all the rest of the suppliers of the world combined. How much of this equipment went to North Vietnam and how much of this equipment went to Egypt?

Secretary SCHLESINGER. Very substantial shares, and also India.

Mr. CONTE. Those three were the principal recipients?

Secretary SCHLESINGER. Yes. There is also a not insignificant amount going to a number of the other countries in the Middle East, such as Iraq and Syria.

LATIN AMERICAN DESIRE FOR ARMS

Mr. CONTE. Maybe this question has been asked of you. I, together with Congressman Long, many years ago had an amendment on the Foreign Aid bill that no weapons of war should be given, sold on credit, or otherwise, to any undeveloped nation of the world with the

exception of five nations that we mentioned, Thailand, Korea, Israel, and so on. At that time we were really aiming our guns on Latin America. Since that time we have been criticized a lot for this amendment.

One time they burned me in effigy on a campus in Peru. They were really upset on this amendment.

Mr. LONG. One time I was told by Senator Montoya that it would not be safe to go to Lima. But actually they treated me courteously.

Mr. CONTE. Most of these countries in Latin America are poor, the illiteracy rate in Peru is one of the highest in the world, so every dollar they get ahold of they should put into the humanitarian programs to take care of the needs of the people. When we got hot on this amendment they were just starting the so-called jet club down there. I think Chile got into it and Brazil got into it and Argentina, and before you know it, Peru got into the thing. We quizzed the military at great length at that time and we wanted to know what the danger was in Peru of invasion. There was no danger of invasion. There were very few insurgents in the country. If you gave them an old Garand rifle, that would be enough to fight each other. Because of that amendment the Peruvians bought the jets from France, the Mirage. Of course, France has gone in heavily since that time in Latin America.

What is the answer to this thing? Those countries don't seem to have any threats from other countries; if anything, it is always a threat from within.

What is the answer here?

Secretary SCHLESINGER. I think, Mr. Conte, that we fully understand and sympathize with the objectives of the amendment. There is no reason for an arms race in Latin America. If all of the states would refrain, and desired to refrain, from purchases of equipment, then those resources could be used in other ways. So the question is: How to bring about the change in attitude amongst these governments? I think we also recognize that these are all sovereign states and our ability to prescribe attitudes for them is limited. Where you have a government which desires to purchase military equipment for prestige reasons, or for internal bureaucratic reasons, and has determined to purchase that military equipment, then they will purchase it wherever they can get it.

We feel that under those circumstances we probably should be responsive to that kind of desire, even though in some ultimate sense we would prefer that the desire not be there, partly because of the dollar earnings, but also because the states that provide military equipment to the less-developed countries acquire an influence. We are reluctant to see that kind of influence acquired, particularly in Latin America, by states in the Eastern Hemisphere. I do not know that we have an answer to that other than a more sober attitude on the parts of governments when there is no external threat.

Mr. CONTE. The military aid programs have been criticized for lack of centralized coordination which is designed to insure that they fulfill the policy objectives of the program. Part of the basis for this criticism is based on the fact that 17 separate programs are authorized by separate congressional committees and administered by separate executive agencies. What is your response to this criticism?

Secretary SCHLESINGER. The executive branch, in connection with the Congress has taken substantial steps to improve the management

of the security assistance program. The most important step was the creation of an Undersecretary of State for Security Assistance who assists the Secretary of State in exercising general direction and continous supervision of the security assistance program. Dr. Curtis Tarr, the Undersecretary for Security Assistance, has instituted a planning and review cycle in which all agencies involved in security assistance participate, and he coordinates all ongoing programs in this area.

TOTAL MILITARY AID

Mr. CONTE. What is the total extent of our military assistance proposed for fiscal year 1974 when all the programs, including direct commercial sales, are taken into account?

Mr. SCHLESINGER. The programs for military assistance proposed for fiscal year 1974 consist of the following:

Grant military assistance	$771.5
Foreign military sales credits	760.0
International military education and training program	33.0
Security supporting assistance	124.0
Commercial sales	726.5
Total	2,415.0

CAMBODIA

Mr. CONTE. In light of the August 15 bombing cutoff, are there any plans to have countries which are receiving sophisticated aircraft under the military assistance program provide aerial support for the Cambodian Government's combat operations? If so, would you please specify what these plans are.

Mr. SCHLESINGER. There are no such plans.

Mr. CONTE. Has there been any significant effort to use the nonmilitary portion of our foreign aid programs as a leverage point to try to have some of the lesser developed countries devote more of their resources to their domestic needs rather than the heavy emphasis which is placed on their military forces?

Secretary SCHLESINGER. Before the United States establishes a nonmilitary aid program, the recipient country must have demonstrated a strong commitment to economic development. Such a commitment can exist alongside a requirement, also felt strongly by the recipient country, for adequate national defense. The country itself must decide what it must spend for defense purposes. There is no perfect calculation which would tell the United States whether a given aid recipient is spending too much on defense, to the detriment of economic development. The United States along with other aid donors, does scrutinize the adequacy of the recipient country's development expenditures. If these are adequate, one presumes that military expenditures are not significantly draining resources away from development.

EUROPE

Mr. CONTE. As you know, there is increasing pressure in the Congress to reduce the size of our military contingent in Europe. Part of the reason for this is the impact that these personnel have on the U.S. balance-of-payments problems. In light of the massive amount of

money the United States is devoting to maintaining these forces in Europe, why is it necessary to continue to support residual programs related to base rights? What is the cost of these residual programs in 1974?

Secretary SCHLESINGER. The U.S. security assistance program for Spain is a limited program with limited objectives. It is entirely a quid pro quo for base rights granted under the 5-year Friendship and Cooperation agreement consumated between the United States and Spain in 1970. This agreement permits United States use of facilities at Rota Naval Base, three air bases, and various lesser communications and logistics support sites throughout Spain. This balanced complex of bases and facilities is an important part of our overall defense commitment in central Europe, the Atlantic and along NATO's southern flank. Spain makes these facilities available to the United States in the interest of overall Western security but without benefit of a security guarantee such as that enjoyed by NATO members. In lieu of such a guarantee, the material quid pro quo, which has nearly been satisfied, not only enhances the capability of Spain's armed forces to contribute to Western defense, but permits us to encourage development of Spain's forces in a way that is compatible with NATO in terms of equipment and doctrine. ———. The cost of this program in 1974 is $5.426 million which includes $0.4 million for training. The small U.S. security assistance program for Portugal contributes to a climate of bilateral relations in which other U.S. goals—such as the use of Lajes Base in the Azores—can be effectively pursued. This program supports Portugal's NATO committed forces, primarily in the areas of air defense and antisubmarine warfare, ———. The cost of this program in 1974 is $0.9 million which includes $0.5 for training.

MOVE TO CREDIT

Mr. CONTE. You state that most of the remaining recipients of grant aid will be able to move to a credit basis in the foreseeable future. Which countries will not be able to? How long a period are you referring to when you say "foreseeable future"?

Secretary SCHLESINGER. The trend from grant to sales is now well established within our security assistance program. In the past 10 years, grant military assistance has decreased from $1,800 million to $550 million while foreign military sales have risen from $700 million to $1,500 million. FMS credits are a major factor facilitating this transition. The transition process will be protracted in those nations facing continued internal unrest or aggression from external sources, nations where grant aid provides for necessary U.S. base rights, and nations where grant aid is provided more on the basis of political than military rationales. The "foreseeable future" is a euphemism for the time frame of our planning, which is 5 years in this case. For security assistance, such planning is related more to the requirements of the Defense budget system than the clarity of our view of the future.

Mr. CONTE. You state that the program cannot guarantee that our friends and allies will maintain the purest form of democratic government. To what exetent is the program being used to encourage this? I would like you to particularly direct your response to Greece and South Vietnam.

Mr. SCHLESINGER. U.S. policy objectives toward Greece have remained fundamentally unchanged since the coup of April 21, 1967. As you are probably aware, the United States shortly after this military takeover, placed an embargo on the delivery of grant aid major military items to Greece. Except for some exceptions made during the Czechoslovakian crisis of 1968, this embargo remained in effect until September 22, 1970, when this administration announced its policy of full resumption of military aid to Greece. This embargo proved ineffective in that it did not encourage a full return to constitutional norms. This U.S. decision on full resumption of military assistance for Greece was based on United States and NATO security considerations. On January 1, 1973, Greece renounced any further grant security assistance from the United States. However, beginning in fiscal year 1969 the United States instituted a credit assistance program for Greece which is proposed for continuance. In light of Greece's strategic position in the eastern Mediterranean, we hope to continue to provide such credit assistance that will enable Greece to meet its valid military requirements. Whatever the philosophical or legal arguments concerning Greece's internal affairs, the strategic importance of the country cannot be disregarded. Without a strong, effective Greece, Turkey is in jeopardy, the eastern Mediterranean is more open to Soviet expansion and the Near East with its oil is isolated still further from Western influence.

Since the beginning of our involvement in South Vietnam the United States has urged the Vietnamese to strengthen their democratic process and we have offered concrete advice on how they might accomplish this. We believe we have been quite successful. The Republic of Vietnam has a very democratic constitution drawn up by a freely elected constituent assembly. Their President has been twice elected in full elections as have both houses of their legislature. Their elections, while not perfect, have been commended by international observers. All of this has been accomplished in a land with almost no democratic heritage and during a prolonged period of external and internal armed aggression.

Our military assistance to South Vietnam has been predicated on the needs of South Vietnamese security and has not been used as a bludgeon to force them into a particular political mold. We believe governmental institutions freely decided upon will be more lasting and beneficial than ones directed from abroad.

KOREA

Mr. CONTE. You state that our plans with respect to the development of a modernized South Korean force have fallen behind because of the limited appropriations available. You also state that the present program is designed to bring the South Koreans up to standards without endangering their economic growth. In light of the lesser appropriations granted for this purpose in recent years, how much of the shortfall have the South Koreans made up for? What was the growth of the South Korean GNP last year?

Mr. SCHLESINGER. The Republic of Korea Government has not taken over any of the equipment modernization costs of military development. However, the Republic of Korea has assumed responsibility for funding an additional $50 million annually for operation and main-

tenance costs since the institution of the 5-year modernization plan. The Republic of Korea achieved a real growth rate of 7.1 percent in its GNP in 1972.

Mr. CONTE. The South Korean Government has demonstrated increasing willingness to enter into negotiations with North Korea on several very significant issues in recent months. Are there any real indications of worry on their part of their own ability to meet the challenges or of a lack of confidence in the prospect for continued good relations with the United States?

Secretary SCHLESINGER. The South Korean Government has undertaken bilateral negotiations with North Korea and on June 23, 1973, President Park offered new foreign policy proposals concerning Republic of Korea relations with the United Nations and Communist countries. These progressive initiatives toward reunification and continued peace in the area were matters of prior consultation with the U.S. Government, and were launched, in part, because the Republic of Korea Government was confident the United States would honor its commitments under the 1954 United States-Republic of Korea Mutual Defense Treaty. However, South Korea is seriously concerned about the delays experienced in fulfilling the Republic of Korea military 5-year modernization program. This bilateral program is the foundation for eventual Republic of Korea self-sufficiency on security matters in the area and its completion should encourage them to continue their flexible policies toward peaceful resolution of tensions on the peninsula.

CAMBODIA

Mr. CONTE. If a cease-fire is achieved in Cambodia, you note that military assistance expenditure requirements would be substantially reduced. If this is the case, what do you plan to do with that portion of the planned budget that would be available?

Secretary SCHLESINGER. The amount of savings available should a cease-fire be achieved in Cambodia is directly dependent upon the cease-fire date. I would anticipate that any savings resulting from a Cambodian cease-fire would be reprogramed to fund other deferral high priority MAP requirements such as completing the U.S. portion of Korea modernization plan objectives.

THAILAND

Mr. CONTE. With the phaseout of our combat involvement in Cambodia and the rest of Indochina, how much need is there to maintain the extensive military facilities in Thailand? Are there plans to turn some of these facilities over to the Thai Government? Will the Thais use these facilities to provide combat assistance for Cambodia?

Mr. SCHLESINGER. The principal military facilities utilized by the United States in Thailand include a port (Sattahip) and seven airfields (U Tapao, Khorat, Ubon, Udorn, Nakhon Phanom, Nam Phong, and Takhli). These facilities are the property of the Royal Thai Government which permits us to use them rent free. Although we have no specific plans at the moment, we anticipate that our use of these facilities will be phased down as the Southeast Asian security situation permits. We will, of course, turn over to the Royal Thai Government

the buildings and other improvmeents that we have constructed on the bases for our use. The Thai will be able to use these facilities, which are their own. in any way they choose. However, in the light of public statements by senior Thai officials that Thailand will not intervene militarily in Cambodia unless Thailand's own boundaries are threatened, we doubt that these facilities will be used by the Thai to provide combat assistance for Cambodia under presently foreseeable circumstances.

The foregoing information reflects the situation which obtained on July 23, 1973. Since that time, the United States has announced the decision to withdraw from Thailand 3,550 military personnel and about 100 aircraft. This move will end U.S. military operations at Nam Phong.

DETERMINATION OF TYPE OF AID

Mr. CONTE. You state that economic policies do not serve as the basis for the determination of whether to extend credit for sales. Do these policy considerations enter into the consideration of whether to make a grant of assistance? How does this statement relate to the statement you made on page 6, where you said that the level of funding for these programs was the result of an overall and careful evaluation of the military assistance programs and their relationship to all the other programs of the U.S. Government?

Secretary SCHLESINGER. U.S. economic policies do not serve as the basis for determining whether to provide a country grant assistance or extend credit for sales. This type determination is made considering a variety of factors, to include recipient nation economic capabilities, threat, and country progress toward defense self-reliance. Formulation of the military assistance program funding level is only arrived at following an intensive examination of these requirements vis-a-vis U.S. indigenous force requirements under the total force concept of planning within the Department of Defense. The military assistance program levels thus derived may be further modified during executive branch review of all other programs of the U.S. Government to include the AID economic supporting assistance program.

LATIN AMERICA

Mr. CONTE. You note that the Latin American countries are not overly ambitious in their defense modernization efforts and that they spend less than 2½ percent of their GNP on defense. What portion of the budget of these countries is devoted to defense? Does this include the so-called "public safety portion" of their expenditures?

Secretary SCHLESINGER. In the 1966–72 time period, defense expenditures averaged 11 percent of total Government expenditures. By the term "public safety," I assume you are referring to the traditional police functions concerning the enforcement of civil law and maintenance of law and order. With the exception of three small Central American countries that are unable to support both police and military establishments and therefore have only one force concerned with both police functions and external defense, all other countries of significant size have a separate military institution which allows for definitive identification of defense expenditures.

AVAILABILITY OF OIL

Mr. CONTE. We have a substantial interest in our relations with the countries of the Persian Gulf because of our need for oil. The extent of our sales and grants of military equipment to this region seem to be a reflection of this interest. Do we have executive agreements with any of the countries in this region which tie the availability of military weapons to these countries to the oil that they will make available to us?

Secretary SCHLESINGER. The United States has no executive agreements with any of the countries of the Arabian Peninsula-Persian Gulf region which tie availability of military weapons to these countries to oil which they make available to consumer countries including the United States. Military equipment furnished to these countries are on a sales and not a grant basis——

Mr. CONTE. Since the British left the gulf, Iran has given some very clear indication that it wants all foreign military forces to stay out of the gulf. How have we and the Russians responded to that desire?

Secretary SCHLESINGER. Probably a better statement of Iran's wishes is that no foreign military forces should replace the British. The United States continues to maintain the same level of forces we have had for over 20 years—the small Middle East force operating out of Bahrain. We look to the Gulf States to assume responsibility for their own security and stability, and we are willing to assist them in attaining that capability. The Soviets have made occasional port visits to Iraq, and they are assisting Iraq in the development of port facilities at Umm Qasr, but we have no evidence at this time that they intend to station forces in the gulf to fill any "vacuum" created by the British departure.

SAUDI ARABIA

Mr. CONTE. Recently, Saudi Arabia has given clear signals that it wants us to reduce our arms flow to Israel if we want to be able to be assured of a supply of oil from that nation. How have we responded to that? Are our arms sales levels to Saudi Arabia tied to the weapons we are supplying to Israel?

Mr. SCHLESINGER. Our arms sales levels to Saudi Arabia are not tied to the weapons we are supplying to Israel. They are based on a mutual discussion of Saudi Arabia's security needs and the responsibilities it has for security in the Arabian Peninsula. In deciding on arms requests from Saudi Arabia, we consider very carefully the effect such sales could have on the overall Middle East balance and on the search for a Middle East settlement. ———. The Saudis are aware of their responsibility to help provide oil to meet rising world demand. At the same time, however, they have indicated the need to present convincing political and economic justification if they are to allow oil production to go well beyond the ability of their economy to absorb growing oil revenues. ——— (Saudi Arabia's production has trebled in the last 4 years and is now almost 9 million barrels per day.) There is also pressure in Saudi Arabia to limit further oil production growth until the large amount of gas now being flared (3.5 billion cubic feet daily) as a result of the quantum jumps in oil production is put to economic use.

Mr. CONTE. How will Russian assistance in establishing a port at Umm Qasr in Iraq affect our future plans in the area?

Mr. SCHLESINGER. The Soviets are helping Iraq develop Umm Qasr as an important port and naval base. Although their ships occasionally visit Umm Qasr, the Soviets do not appear to be utilizing the port as a base. At the present time, their activities at Umm Qasr have not prompted any fundamental change in DOD policy concerning this area.

KUWAIT

Mr. CONTE. How does our assistance to Kuwait relate to the development of this port and the possible threat that Iraq poses to Kuwait?

Mr. SCHLESINGER. Russian assistance in developing a port at Umm Qasr in Iraq has not directly affected U.S. military sales proposals tc Kuwait. Kuwait first approached the United States as a possible source of arms in 1971 after the British defense commitment was ended, and a U.S. survey team first visited Kuwait in February 1972. An Iraqi claim to two Kuwaiti islands which dominate the waters leading to Umm Qasr and the Iraqi seizure of a Kuwaiti border post last March prompted the Kuwaitis to intensify their discussions with the United States to improve their military defenses.

Our offer to help Kuwait improve her defenses is related to the general Iraqi threat to Kuwait, not specifically to the development of the port of Umm Qasr. Kuwait's desire for U.S. assistance is primarily related to air and ground, rather than naval, defenses. While detailed discussions have been underway with the Kuwaitis for several months regarding the sale of arms and related supporting equipment and facilities, no contracts have yet been signed.

IRAQ

Mr. CONTE. Iraq seems to have stopped short of breaking with the West and seems to be trying to straddle the fence with the United States and the Russians. Could you provide us with an evaluation of our relationships with the country and how Iraq's relationships with the other gulf nations stand?

Mr. SCHLESINGER. There have been no diplomatic relations between the United States and Iraq since 1967, but each country has maintained a small "interests section" in the other's capital. Several days ago, we noted a speech by Siddam Hussein, the No. 2 man in the Iraqi Government, addressing the possibility of improved ties with the United States and Britain. Regarding the second part of your question, Iraq has had long-standing territorial rivalries with Iran and Kuwait.

Again, we have some recent indications of willingness by these parties to resolve some of these issues.

FRENCH SALES

Mr. CONTE. What is the extent of French arms sales to the oil nations? Are their sales tied to the supply of oil available to France?

Secretary SCHLESINGER. ———.

Mr. CONTE. Are the French operating their arms sales programs to any of these countries in such a manner as to limit the availability of oil from these nations to the United States or any other nation?

Secretary SCHLESINGER. ———.

ARAB TERRORISTS

Mr. CONTE. In which of the oil nations to which we are making grants or sales of arms are the Arab terrorists a significant threat to the government in power now?

Mr. SCHLESINGER. We do not see any direct, immediate internal threats to any of those states. In none of them do we find armed, active Palestinian guerrilla organizations such as existed in Jordan prior to 1971. ———.

MIDDLE EAST

Mr. CONTE. One expert has characterized the big power rivalry in the Persian Gulf as a rivalry which is being carried out by proxy. Is this an accurate assessment of the situation? Are these arms sales really contributing to the stability of the region?

Mr. SCHLESINGER. I really would have some difficulty in applying the term "proxy" to the situation in the Persian Gulf. Naturally I am concerned by the amount of Soviet activity and influence in Iraq today, but you may have noticed in recent days that a very high ranking member of the Iraqi Government has publicly addressed the possibility of improved ties with the United States and Britain. I hardly think that is the mark of a proxy nation. My impression has been that those Arab States accepting Soviet assistance have stubbornly clung to their identity as Arab States first and that the Soviets have by no means called all the shots. Remember also their experience in Egypt in 1972.

From a U.S. DOD standpoint, the two nations with which we have most of our relationships in the Persian Gulf area are Saudi Arabia and Iran, two completely independent and sovereign states. Iran has close ties with the United States, but it also has significant relations with the Soviet Union. The Shah himself is a man of strong convictions. We also have good relationships with Saudi Arabia. King Faisal and the Saudis have firm convictions, too, and they do not approve of certain aspects of our Middle East policy. We share certain common objectives and interests with these two nations, but they are by no means proxies. Both zealously guard their freedom of action. Nor do we have any desire to manipulate those countries and, if we did, I cannot imagine how we could even hope to do so. We respect these nations and their leaders and we seek no proxy among them. Indeed, we look to them to be responsible for their own security in the area with the United States assisting through the sale of arms and technical assistance they may seek.

Mr. CONTE. Mr. Chairman, you have been most kind to me.

RESTRICTING SALES TO UNDEVELOPED COUNTRIES

Mr. PASSMAN. Thank you, Mr. Conte. Your line of questioning is always interesting. In the past my distinguished colleagues, Mr. Conte and Mr. Long, have done an excellent job in endeavoring to tighten up sales in certain underdeveloped countries. As it applied to an

appropriation bill it is usually good for 1 year at a time and then it expires.

We now have permanent legislation in the Foreign Assistance Act of 1961, section 504 which reads:

> That none of the funds appropriated pursuant to this subsection shall be used to furnish sophisticated weapons systems, such as missile systems and jet aircraft for military purposes to any underdeveloped country, unless the President determines that the furnishing of such weapons system is important to the national security of the United States and reports within 30 days each such determination to the Congress.

I believe that is now permanent legislation.

Of course, you are living by this. Any exceptions made to the rule have to be based upon a determination by the President.

Is that correct?

Admiral MOORER. Yes, sir.

Mr. PASSMAN. Mr. Yates.

APPROVING THE COVER STORY

Mr. YATES. Mr. Secretary, I join my colleagues in warmly welcoming you to the committee.

I would like to follow up on Mr. Long's questions. You said that the authorization for the cover bombing of Cambodia came from the top—the very top. Does this mean the President authorized it?

Secretary SCHLESINGER. I would put it this way: This was discussed in the National Security Council. While I have no direct information that the President gave the order, I cannot imagine that the bombing would have occurred with the President's disapproval.

Mr. YATES. Does he chair the National Security Council?

Secretary SCHLESINGER. Yes, sir.

Mr. YATES. Did he chair it at the time this order was given?

Secretary SCHLESINGER. I am certain that he did, although I have no direct knowledge.

Mr. YATES. You stated also that the information was made available to certain Members of Congress. If this is true, why were any records falsified by the Air Force?

Secretary SCHLESINGER. I tried to refute that assertion before, Mr. Yates. Falsification is a word that is being quite unfairly used in this connection.

What happened at that time was that there was an order to bomb from the Government to the Air Force, and there was an order simultaneously to limit, because of diplomatic reasons, those who knew. For this reason, the records that were kept were restricted to those in the chain of command.

In addition, because of the American penchant, if I may put it that way, for keeping accurate statistics so that the Comptroller's Office and other offices in the DOD would know precisely the amount of munitions expended, there was another record that we kept in which the totals of the bombing in Cambodia were included as part of the Vietnamese totals. The purpose of this was to permit these offices to make their analyses more accurately and to insure that all bombs were accounted for. Since these offices were not part of the group that was believed to have a need to know, they were not privy to the knowledge that bombing was going on in Cambodia.

BOMBING RECORDS NOT DESTROYED

Mr. YATES. Are you saying that the Major whose story came out in the newspaper was not telling the truth when he said that he was ordered to destroy records of bombing in Cambodia?

Secretary SCHLESINGER. I think that his story, which I have not read——

Mr. YATES. It was in the paper.

Secretary SCHLESINGER. I have not read his testimony. I have read what was said in the paper about that. I think the destruction probably applied to the coordinate cards. On each and every day that you have this kind of strike, coordinates are sent to the field so that the bombers can be accurately guided to the targets. These coordinate cards were burned. However, that is worlds apart from saying that there was a destruction of the records, because the records were being kept at SAC headquarters. They did not want these records floating around because this was a cover operation and there was a desire that the coordinates for these strikes not be made known during the period of time. We have perfectly accurate records, and these perfectly accurate records have been made available to the Hill.

Mr. PASSMAN. Would the gentleman yield in this instance?

Mr. YATES. I will.

INITIATING BOMBING REQUESTS

Mr. PASSMAN. This is by request of the Cambodian Government that we initiate these strikes?

Mr. YATES. No.

Secretary SCHLESINGER. The Cambodian Government acquiesced, or it was willing that these strikes occur, or did not protest. There is a certain amount of obscurity as to precisely what degree——

Mr. YATES. The initiative of accord did not come from the Cambodian Government.

Secretary SCHLESINGER. That is not certain.

Mr. YATES. That is what I am trying to find out, Mr. Secretary. What is certain?

Secretary SCHLESINGER. Mr. Yates, I understand your desire to find this out. I am curious myself. I do not have the answer to the question.

Mr. PASSMAN. This is not the exception. This has been practiced in all warfare, has it not, going back to World War I and II.

Secretary SCHLESINGER. That is right.

Mr. PASSMAN. And the Korean war.

Mr. YATES. Mr. Chairman, what has not been the exception?

Mr. PASSMAN. Providing "cover" for these strikes. I think the same thing applied when we landed in Normandy didn't they practice this subterfuge, if you want to use the word, to get in? Has it not been pretty much true in warfare that it is necessary to proceed on this basis?

Mr. YATES. I think that is subject to interpretation.

Mr. PASSMAN. Let each man interpret it himself. If the gentleman will yield further.

Mr. YATES. I will be glad to yield further.

Mr. PASSMAN. Without exception it comes down from the Commander in Chief, the President. You do not do anything without it coming down from the President all the way down to the bottom. Isn't that true?

Admiral MOORER. That is true.

Secretary SCHLESINGER. Mr. Yates, if I may amplify on that, there are three questions that arise. One is whether it was wise to have these strikes in Cambodia. A second question is whether the United States should have cover in diplomatic or military circumstances of this sort. The third is when the need for cover has ended, how quickly do you tell the story? I think the third question in this case is quite limited, though pertinent.

I think we were remiss in a number of ways, but that the really major questions concern the wisdom of the strikes and whether the United States should have a cover story for such operations.

Mr. YATES. Mr. Chairman, is it in order for me to ask the Secretary when we find out about whether this request came from Prince Sihanouk to place that in the record?

Mr. PASSMAN. It is the prerogative of the Executive and the military, if they stamp classified on it, we are going to respect it. As far as you getting the information you are entitled to it.

Secretary SCHLESINGER. Mr. Yates, we will endeavor to answer the question.

[The information follows:]

CAMBODIA—REQUEST FOR ASSISTANCE

The Secretary of State addressed this question on June 25, 1973, in the course of remarks before Members of the House of Representatives. While Sihanouk was still in office, there were large numbers of North Vietnamese troops in Cambodian sanctuaries along the South Vietnamese border. In 1968 Chester Bowles, Mr. Habib, and Mr. Spivak called on Sihanouk to discuss this question. Sihanouk said he did not want the North Vietnamese troops in his country. He wanted to get rid of them and he hoped the United States could do something to assist. Sihanouk said he did not want it known that he acquiesced in the bombing, but requested U.S. action to get North Vietnamese troops out of Cambodia.

Mr. YATES. Thank you, sir.

FUNDING FOR CAMBODIA

On page 15 you make what seems to me to be a rather alarming statement. You say:

If adequate funds are not available we might see not only the collapse of the Cambodian Government but the rapid erosion of the Vietnam and Laos agreements; in short, a collapse of the whole structure of peace in Indochina that the President has so painstakingly put together through years of negotiation.

We know that the Congress has voted with the consent of the President to end active combat by all U.S. forces in Cambodia on August 15. You are saying that we have to make funds available to Cambodia. Is this to be in substitution for such funds?

Secretary SCHLESINGER. No, I think it is a complement to the present bombing, and when the bombing ceases it is a necessary ingredient for the Cambodian Government to be able to continue to resist the insurgents.

Mr. YATES. How much money have you requested for the purpose?

Secretary SCHLESINGER. I think it is $167 million or thereabouts.

Mr. YATES. Will $167 million keep the Lon Nol government going after August 15?

Secretary SCHLESINGER. It is adequate for their defense operations.

Mr. YATES. It is adequate?

Secretary SCHLESINGER. Yes, sir.

Mr. YATES. The $167 million should prevent the collapse of the Cambodian Government and therefore the erosion of the Vietnamese-Laos agreement?

Secretary SCHLESINGER. I think the reverse of that logic is not necessarily persuasive. What we have said, I think, in the past, is that withdrawal of U.S. air support is not going to help this regime continue to flourish, but it could survive. It cannot survive both with the withdrawal of U.S. air support and elimination of the MAP program.

Mr. YATES. Thank you Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Yates.

I shall be as brief as possible.

U.S. INVESTMENT IN FOREIGN AID

Mr. YATES. Mr. Chairman, before you start, may I apologize to the Secretary, I want to offer an amendment on the floor so I must leave.

[Discussion off the record.]

Mr. PASSMAN. I guess over the period of years I have been the most antiforeign aid Member of Congress. I think of all military as a complete waste, every dime of it. But until some smart mind can develop a system whereby we can have external and internal security without it then we are going to have to have a military. I think for the past 7 years without exception I have supported the military assistance program.

I don't think I will ever have to apologize for my position. I move pretty much on numbers and statistics. If I read the record correctly, if we take Korea, actually our commitment goes back some 22 or 23 years. If you want to pick up with the Korean war in 1950 or 1951, and if we look at what we have invested in Korea, we find it was with the endorsement of President Truman, subsequently Presidents Eisenhower, Kennedy, Johnson, and Nixon. But our actual disbursements in dollars has been $35.2 billion. That was the amount of money we spent there which had the approval of all of our great military leaders and civilian leaders. The number of deaths during the Korean war was 33,629. The casualties were 105,785. To my way of thinking that is a tremendous investment, not only in resources but in precious lives. So I have to yield to those great minds who know what we should or should not do. As I look at the record and hear the statistics revealed in different briefings we had in Korea and elsewhere, it is a foregone conclusion without a military assistance program for Korea sooner or later that investment could go down the drain; could it not?

Secretary SCHLESINGER. I think there is that risk, Mr. Chairman.

Mr. PASSMAN. As far as the air power is concerned, the North Koreans have about four modern fighters to South Korea's one; do they not?

Admiral MOORER. Yes, sir.

U.S. FORCES IN KOREA

Secretary SCHLESINGER. That is about right.

Mr. PASSMAN. That could be a tremendous threat, when you take numbers of four to one in favor of the enemy. If I understand it correctly, the Nixon doctrine calls for a reduction in U.S. military

strength but an increase in military equipment so as to modernize the forces of the recipients of the military assistance program; is that correct?

Secretary SCHLESINGER. It is to eliminate the need for U.S. ground forces in particular, but U.S. forces in general.

Mr. PASSMAN. When this Nixon doctrine was announced, I believe we had 60,000 troops in South Korea, and even though the Koreans protested we brought home 20,000 of the troops that we maintained there for some 20-odd years.

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. By reducing 20,000 U.S. troops in Korea over a 5-year period, it was a net savings of $1,100,000,000. That is what we saved by bringing home the 20,000 troops.

Admiral MOORER. $1,100,000,000.

Mr. PASSMAN. We saved $1,100,000,000.

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. The total cost of the modernization program over the same period was $1,500,000,000.

Secretary SCHLESINGER. Yes, sir.

IMPLIED COMMITMENT TO KOREA

Mr. PASSMAN. So in reality the modernization program for Korea, which we certainly agreed to, whether it was in writing or not—your predecessor Mr. Laird testified to that effect and I believe you are—we have a type of commitment that we will provide $1.5 billion over a 5-year period.

Secretary SCHLESINGER. We have a plan, Mr. Chairman.

Mr. PASSMAN. Let us say an implied commitment.

Secretary SCHLESINGER. I think that is a fair way to put it.

Mr. PASSMAN. Would you accept it on that basis? I think that is what Secretary Laird indicated for the record.

Secretary SCHLESINGER. Part of that one and a half billion can be met by sales credits and guarantees.

Mr. PASSMAN. We just hope sooner or later a good part would be. To be perfectly honest with you, the President of Korea, President Park, agreed that he would accept all military assistance on a loan basis. I had not pursued that. He said absolutely, on concessionary terms, that all subsequent aid would be accepted on a loan basis.

Secretry SCHLESINGER. That is the intention, yes, sir.

U.S. INVESTMENT IN VIETNAM

Mr. PASSMAN. Now, if we may have a look at Vietnam. I don't want to develop into a foreign aid enthusiast, but above everything else I want to be a realist because we all love this great country of ours. If we go out and have a look at Vietnam, actually the aid program started under President Eisenhower—I believe he made the first commitment of economic aid and maybe military advisers—and subsequently it had the endorsement of President Kennedy, President Johnson, and President Nixon. Again when we look at the record, when our present Commander in Chief was sworn in, we had 542,500 troops in Vietnam. Today we are down to zero, are we not?

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. That is a great accomplishment for any President. It is unbelievable that a man could accomplish so much in such a brief period of time, especially with so many influential people constantly pulling the rug and sending these emissaries to North Vietnam, carrying with them aid and comfort. It is a wonder we concluded that war successfully.

If we must think in terms of investment, and this happened under all of these Presidents that I just read into the record, it has cost us $141 billion. That is an awful lot of money. I believe that our deaths are 56,044, with 303,000 casualties, wounded men that we are going to have to look after in the future. That, too, is a tremendous investment, is it not?

Admiral MOORER. Yes, sir.

Mr. PASSMAN. Do you think that a nation could possibly survive and protect this tremendous investment in resources and precious lives without aid?

Secretary SCHLESINGER. No, sir.

Mr. PASSMAN. So we are being absolutely foolish for giving any thought to cutting this back below a safe level?

Secretary SCHLESINGER. That is correct, sir.

Mr. PASSMAN. As far as I am concerned, that is the way I am going to vote. I might also say that these people likewise agreed reluctantly to accept military assistance on a loan basis. But they are willing to accept economic aid on a loan basis. I think that the foreign aid bill is in trouble this year. At certain points along the way we are going to get in trouble. I think the tighter we can make the program the better it is going to be for all concerned.

TERMS OF MILITARY CREDIT SALES

Now with respect to foreign military credit sales, you are requesting $525 million. All of these sales are made on the basis they will be repaid in U.S. dollars.

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. What is the average term?

Secretary SCHLESINGER. It varies between 6 and 7—whatever the cost of money to the United States.

Mr. PASSMAN. Six to seven years.

Secretary SCHLESINGER. Six or seven percent.

Mr. PASSMAN. I am speaking about the length of term in repayment.

Secretary SCHLESINGER. It is 10 years, approximately.

Mr. PASSMAN. Without exception all of the loans are made on the basis that the recipient pay the going rate of interest.

Secretary SCHLESINGER. Concessionary rates of interest are occasionally authorized, but the general standards and criteria of these loans require not less than the cost of money to the U.S. Government.

Mr. PASSMAN. If it happens to go to 8 percent, they pay 8 percent.

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. In this instance it simply means that nations are going to buy military hardware, and if we don't sell it some other nation will.

A European nation or Russia. Isn't it just that simple?

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. If we go through with a military credit sales, No. 1 it means a profit to the manufacturer and it furnishes employment. Furthermore, the manufacturer no doubt, pays about 50 percent of his profits to the U.S. Treasury in taxes.

Secretary SCHLESINGER. That is correct.

U.S. BENEFITS FROM FMS

Mr. PASSMAN. If you don't have a military credit sales program, you deny the people employment. You deny the manufacturer the profit. You deny the U.S. Treasury of these tax receipts. If we could block military sales everywhere and have no other nation sell the military hardware, maybe we could give some thought not to furnishing military sales ourselves. As you just said, it is a foregone conclusion that these people are going to buy military hardware, either from the United States or they are going to buy from some competitor—and more likely from Russia if we don't provide it. Is it that simple?

Secretary SCHLESINGER. It is very much that way.

REPAYMENT RECORD

Mr. PASSMAN. What has been your record on repayment on military credit rates?

Secretary SCHLESINGER. Excellent, Mr. Chairman.

Mr. PASSMAN. Have you had any rollover on any of the loans?

Secretary SCHLESINGER. The arrears are only $2 million, Mr. Chairman.

Mr. PASSMAN. Out of a total?

Secretary SCHLESINGER. Of all of the billions in sales, there are about $2 million in arrears. If there has been any adjustment of debt, we would have to provide that for the record.

Admiral PEET. As of July 1 it's down to $800,000.

Mr. PASSMAN. $800,000 delinquent out of the total outstanding. Total prior sales are what?

Secretary SCHLESINGER. Many, many billions of dollars.

Mr. PASSMAN. Many billions of dollars. You have less than $1 million that is delinquent?

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. And they are paying the going rate of interest?

Secretary SCHLESINGER. Yes, sir; generally speaking.

Admiral PEET. With some minor exceptions in the case of sales to Greece and Turkey.

TREND TOWARD MORE FMS THAN MAP

Mr. PASSMAN. The increase in the request for funds for military sales is brought about to a very large extent by a decrease in the request for grant military aid, is that true?

Secretary SCHLESINGER. That is correct, Mr. Chairman.

Mr. PASSMAN. Is it not true that the funds requested for military assistance, mainly military credit sales, are needed to protect the very large investments the United States has made to help other countries maintain their freedom?

Secretary SCHLESINGER. I think that is the intention, sir.

Mr. PASSMAN. Would you place in the record at this point a table showing the comparison of your request for fiscal 1974 as compared to the 4 previous years in the area of grant aid and also military sales?

Admiral MOORER. Yes, sir.

[The information follows:]

MAP GRANT AID AND FMS CREDITS—REQUESTS FOR APPROPRIATIONS

[In millions of dollars]

Fiscal year	Map grant aid		FMS credits	
	Requested	Appropriated	Requested	Appropriated
1970	425	350.0	275.0	[1] 70
1971	690	690.0	772.5	[2] 700
1972	705	500.0	510.0	400
1973	780	[1] 550.6	527.0	[1] 400
1974	685	----------	525.0	----------

[1] Continuing resoltuion authority.
Includes $500,000,000 for Israel appropriated by Public Law 91-665.

KOREA AND VIETNAM INVESTMENT

Mr. PASSMAN. Would you supply for the record the updated tables appearing on pages 4 and 5 of the House Report for last year showing the very large investment we have made in Korea and Vietnam, including the estimated figures for fiscal year 1973?

Secretary SCHLESINGER. Yes.

[The information follows:]

	Dollars in billions
U.S. investment in Korea:	
Estimated Korean war costs DOD (fiscal years 1950–54)	18.0
Cost of maintaining U.S. military forces in Korea (fiscal years 1954–72)	9.8
Military assistance grant aid (fiscal years 1950–72)	3.5
Economic assistance programs (fiscal years 1946–72)	5.6
Total	36.9
U.S. investment in Vietnam:	
Estimated Vietnam war costs DOD (fiscal years 1965–73) (includes MASF program)	135.5
Economic assistance programs (fiscal years 1962–72)	4.6
Military assistance program (fiscal years 1962–65) (funded under Foreign Assistance Act)	.9
Total	141.0
Estimated outlays—full cost basis:	
Fiscal year:	
1969	28.8
1970	23.1
1971	14.7
1972	9.4
1973 (estimate)	7.0

U.S. military casualties in the Korean war

Died from hostile causes	33,629
Died from nonhostile causes	20,617
Total deaths	54,246
Wounded or injured, nonfatal	103,284
Wounded or injured, fatal (added to deaths)	2,501
Total wounded	105,785
Missing in action	5,866
Captured or interned	7,140

U.S. Military casualties in connection with the Vietnam conflict (Jan. 1, 1961 through July 28, 1973)

Died from hostile causes	46,079
Died from nonhostile causes	10,309
Total deaths	56,388
Wounded or injured, nonfatal	303,653
Wounded or injured, fatal (added to deaths)	5,164
Total wounded	308,817
Unaccounted for	1,249

REDUCING U.S. TROOP STRENGTH

Mr. PASSMAN. It has been stated earlier that the funds requested for security assistance are needed to implement the Nixon doctrine, which is aimed at reducing direct U.S. involvement overseas and which requires our allies to assume a greater role in providing for their own security.

Secretary SCHLESINGER. That is correct, Mr. Chairman.

Mr. PASSMAN. As we stated earlier, by the Nixon doctrine we have been able to reduce our troop level overseas, have we not?

Admiral MOORER. Yes.

Mr. PASSMAN. Especially in Korea?

Admiral MOORER. Yes.

Mr. PASSMAN. Would you list for the record other areas where we have been able to reduce the troop strength?

Admiral MOORER. Yes, sir.

[The information follows:]

COMPARISON OF U.S. TROOP STRENGTHS

The following chart lists U.S. troop strength in the East Asia and Pacific area as of June 30, 1970, and March 31, 1973:

	June 30, 1970	Mar. 31, 1973
South Vietnam Thailand Japan (including Okinawa) Philippines South Korea Taiwan	[Deleted.]	
Total	[Deleted.]	

APPLAUDING THE PRESIDENT

Mr. PASSMAN. I am always impressed with statistics. I am a Democrat and I will remain in the party until they bury me. I have said before 5,000 people down in my hometown, when you only had 150 Republicans, that for my money Richard M. Nixon is the greatest President this Nation ever had I made that statement simply because I look at 542,500 troops and then I look at zero and I look at the fact that we were slowly but surely driving China back into the arms of Russia. They were ready to make that leap, but this man had the foresight to move out in front and not ask them to come here or meet him half-way, but go to China.

I think we have actually just reversed ourselves completely. I think we could have been in serious trouble in another 5 years. I think President Nixon has turned this thing around and he is cooling the world down. I am not talking about Watergate, but the man's real accomplishments. It looks like we are just on the threshold of a period of great peace and prosperity. Don't you see it that way?

Secretary SCHLESINGER. Yes, sir.

Mr. PASSMAN. I think history will record this as the greatest move ever made by any President in the history of America, when he established this dialog between China and the United States. I feel that way. I am saying it out of my heart. I say it down in my district and I say it on the floor of the House and I say it in this committee. If you will judge the man by his real accomplishments, you have to give him straight A's. That is the way I feel.

KOREA

If I remember correctly, 2 years ago the U.S. entered into a 5-year modernization agreement with Korea aimed at updating her armed forces. Since the military assistance program has been reduced rather substantially over the past 2 years, has this agreement been adversely affected by these reductions?

Secretary SCHLESINGER. As a result of reduction in military assistance funds in fiscal year 1972 and fiscal year 1973, it appears that the modernization program cannot be completed in 5 years and must be extended. The time required to complete the objectives of the plan is dependent on the level of security assistance funding appropriated over the next few years.

Mr. PASSMAN. Wasn't this agreement entered into with the understanding that the United States would provide funds for force modernization which would allow us to remove 20,000 troops from Korea?

Secretary SCHLESINGER. The Republic of Korea 5-year modernization plan was not a precondition for the withdrawal of U.S. forces from Korea. The modernization plan was developed to increase Republic of Korea self-sufficiency in security matters, while U.S. force levels in Korea are dependent upon both Korean peninsula and theater commitments in the area. These two security aspects, although related, were not directly tied to each other.

Mr. PASSMAN. Do the Koreans feel that we are not living up to our part of the agreement?

Secretary SHLESINGER. Although U.S. congressional funding restraints have seriously delayed fulfillment of the modernization pro-

gram, it is planned to complete the program even if it does require a stretchout of the time required. Funding of the modernization program will reassure the Republic of Korea and others that our national commitment to the defense of and eventual self-sufficiency for our allies is to be taken seriously.

OTHER ARMS SUPPLIERS

Mr. PASSMAN. I have read several articles which indicate that Europe is fast becoming the arms supplier for Latin America. Many people have argued that the United States should not supply arms to Latin America because it will lead to arms races and divert their efforts from economic development. I guess these articles prove the point that if the United States does not sell arms to the Latin American countries they will buy the equipment from other sources. Will you please comment?

Secretary SCHLESINGER. Latin America is spending approximately 1.85 per cent of GNP on defense activities. In recent years, the restrictive provisions of the FMS Act, such as the regional ceiling on Latin America, reduced FMS credit program authorization and appropirations and prohibitions against the sale of sophisticated weapons to less developed countries, have discouraged the Latin American countries from acquiring military equipment. The Latin American countries have demonstrated their national sovereignty (and perhaps resentment) by purchasing during fiscal years 1968–72 approximately $1.3 billion worth of military hardware from European countries and Canada, and only $334 million from the United States, or 20 percent from the United States and 80 percent from third countries.

Mr. PASSMAN. By not making these sales, is it not true the United States not only loses the sales transaction which is usually paid back in dollars at the going interest rate, but American industry loses the business and the U.S. Treasury loses additional tax dollars from the business loss?

Secretary SCHLESINGER. It is true that U.S. industry and U.S. labor have lost a significant amount of profitable business and jobs as a result of Latin American sales contracted with third countries. The U.S. Treasury has also been denied its corresponding share of tax revenues. ———

Mr. PASSMAN. Could you tell the committee which countries are selling arms to Latin America, in what amounts, and the terms of the sales?

Secretary SCHLESINGER. I will provide the information.

[The information follows:]

ARMS SALES TO LATIN AMERICA 1972–JUNE 1973

Arms sales to Latin America (excluding the United States) totaled over $385 million for the period January 1972-June 1973. The major sources were France ——— and the United Kingdom ———. Together, they accounted for some 70 percent of total sales to Latin America. Thirteen other countries sold a total of $114 million worth of equipment to the area.

The major types of equipment being sold to Latin America during this time frame are a variety of ground equipment; a cruiser, submarines, and patrol boats; fighter, trainer, and transport aircraft and helicopters.

The main recipients are Brazil ——— and Venezuela ———. These countries acquired a total of ——— or some ——— percent of all Latin American purchases.

Nine other Latin American countries purchased a total of ——— worth of equipment. ———

EXCESS EQUIPMENT

Mr. PASSMAN. In Public Law 91–672, as amended, a ceiling was placed on the excess equipment program of $185 million. Are you requesting an increase in the ceiling for fiscal year 1974?

Also, is it not true that if you are denied the right to allocate excess equipment to the recipient nation in the military assistance program the equipment would have to be declared surplus and sold for scrap because you cannot sell it to civilians and is it not true that if a ceiling is placed on the excess equipment program, an additional amount would have to be requested in dollar appropriations for the military assistance program in order to fulfill the equipment needs of these various countries?

Secretary SCHLESINGER. The requested excess defense article ceiling for fiscal year 1974 is $185 million; unchanged from Public Law 91–672, as amended. Should the DOD be denied the right to allocate excess defense articles to MAP recipient nations, the excess materiel would be available to satisfy possible property disposal offices for demilitarization and disposal to highest bidder. It is likely that a high percentage of such materiel would indeed be disposed of as scrap, should it be unavailable for MAP purposes. The $185 million ceiling proposed for continuation is deemed sufficiently high to permit transfer of identified excess military articles to MAP recipients. If the ceiling were to be drastically lowered, precluding supply of major amounts of excess articles to MAP, it is likely that increased dollar appropriations for MAP would be required.

REPUBLIC OF CHINA

Mr. PASSMAN. Is it not true that the United States fully intends to honor all its treaty commitments with the Republic of China?

Secretary SCHLESINGER. Yes; we will. Notwithstanding recent developments in our China policy, U.S. treaty commitments with the Republic of China remain in force. We have given repeated high-level assurance to the Republic of China concerning our continued adherence to these commitments.

MIDDLE EAST

Mr. PASSMAN. Do you feel that U.S. military aid to the Middle East will help the balance of power and ease tensions in that part of the world?

Secretary SCHLESINGER. U.S. military aid to friendly countries in the Middle East is designed to accomplish those ends. We have found it necessary to supply arms to Israel, for example, because of massive arms shipments by the Soviet Union to certain of its Arab neighbors, notably Egypt and Syria, with which Israel unfortunately finds itself in conflict. We have sold sufficient military equipment to Israel to enable it to deter an attack by these neighbors or to defend itself decisively and effectively if an attack should nevertheless come. This has been a major factor in sustaining the Suez Canal cease fire, a U.S. initiative, these past 3 years. We have provided military aid to Jordan

that has permitted that country to defend itself from its Soviet-supplied neighbors and to maintain its internal security against extremists. Military assistance is also being provided to countries in the area of the Persian Gulf and the Arabian Peninsula. The withdrawal of Britain's military presence and the continuing military support that the Soviet Union gives to some of its neighbors, notably Iraq and the People's Democratic Republic of Yemen, have caused some of these countries to turn to the United States for assistance in improving their defense capabilities. We have reacted affirmatively to these requests, in the spirit of the Nixon doctrine, to enable them to take up the main responsibility for their own defense and to cooperate among themselves to insure regional peace and security.

Mr. PASSMAN. Since there have been lengthy discussions on the possibility of a fuel shortage in the future, does U.S. military aid to the Middle East take on more importance since large oil deposits are located there?

Secretary SCHLESINGER. Projections vary, of course, but conservatively we estimate that, if present trends continue, the United States will import about half of its oil requirements in 1980 and that half of this will come from the Persian Gulf. Saudi Arabia and Iran will account for much of these gulf imports. This fact naturally reinforces our already existing desire for continued good relations with the oil-producing countries of the Middle East. We look to security assistance, along with our economic, technical assistance, cultural exchange, and the other programs to deepen and extend these good relations.

BASES ON OKINAWA

Mr. PASSMAN. Since Okinawa has reverted to Japan, does the United States still maintain bases on Okinawa?

Secretary SCHLESINGER. Yes, we still have approximately 40,000 military personnel on Okinawa. For the most part they are based at six major installations, that is, Kadena and Futenma Airbases; Army's 2d Logistical Command; Camps Sukiran, Courtney, and Hansen. Prior to reversion, we held 147 facilities and areas in the Ryukyus ranging in size from the forementioned down to small, unmanned communications sites. This number has been reduced to 86, and further potential reductions/consolidations may reduce this number to fewer than 50 by 1976.

GRANT TO LOANS

Mr. PASSMAN. I note that Greece has been phased out as a military assistance grant recipient in fiscal year 1974. Are there plans in the near future to switch more countries from grant military aid to military credit sales? Please indicate which countries and approximate timetable.

Secretary SCHLESINGER. Yes, sir. A major objective of the military assistance program is to continue the transition of grant aid recipient nations to foreign military sales credit and cash, to the extent that that trend continues to support U.S. national security interests and the military capability of friendly and allied countries is not hampered by undue financial burdens. It is not possible to provide a timetable indicating countries to be totally transitioned from grant assistance

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since that determination in each instance must be based on a weighing of pertinent economic, military and political factors as they exist at the time transition is proposed.

EFFECTIVENESS OF NATO NATIONS

Mr. PASSMAN. Do you feel that the NATO nations are participating effectively in the collective security of Europe?

Secretary SCHLESINGER. Of course, from my vantage point as U.S. Secretary of Defense, I would like to see our NATO Allies do more, but it should also be acknowledged that our NATO partners participate substantially and effectively in our collective security. Most NATO deployed forces are supplied by our allies—approximately 90 percent of the ground forces, 80 percent of the ships, and 75 percent of the aircraft.

Our allies are also improving their forces significantly. As former Secretary of Defense Richardson noted in his annual Defense report to the Congress in March 1973, allied defense budgets are up 30 percent from 1970, a substantial increase after inflation. The European members of NATO plan to put into service more than 600 tanks, 500 combat aircraft, a substantial number of submarines and destroyers and other sophisticated equipment from this year through 1976.

However, the Federal Republic of Germany helps offset in significant ways the costs of our forces in Germany. The present offset agreement between our two countries amounts to more than $2 billion for the fiscal year 1972–73. A new agreement is now under negotiation for the next period. In addition, the European Defense Ministers have recently agreed to examine the problem of finding additional multilateral means to neutralize the balance-of-payments costs that fall on the United States resulting from our forces in Europe.

All of these defense efforts represent a continuing and invaluable European contribution to the collective security of NATO.

THAI IRREGULARS

Mr. PASSMAN. In a newspaper article, it was stated that about 16,000 to 17,000 Thai irregular forces are serving in Laos which cost the American taxpayer $100 million a year. Are these figures still valid and from what account is this money provided?

Secretary SCHLESINGER. As has been testified to in the Congress on numerous occasions, Thai volunteers in Laos are supported by the United States Defense Department funds (MASF) are used for this program. The $100 million figure for fiscal year 1973 was accurate, but no fiscal year 1974 funds have been requested for this program. In the meantime, the current number of Thai volunteers is classified; however, there are fewer than 16,000 troops at the present time.

KOREA AND THE PHILIPPINES

Mr. PASSMAN. There has been some discussion as to why the United States should supply military assistance to Korea and the Philippines when these two countries are operating under a government that has been termed "authoritarian." would you please comment?

Secretary SCHLESINGER. Both Korea and the Philippines have to some degree strengthened the executive branch of their government during the past year; in Korea to strengthen the government's position in its new foreign policy initiatives with North Korea, and in the Philippines to combat insurgency and speed the implementation of much needed social and economic reforms. The U.S. Government has taken the position that these changes are internal domestic changes undertaken by a sovereign nation. Since President Park's government in Korea and President Marcos' government in the Philippies are the legitimate authority in their respective countries, U.S. military assistance is provided to Korea and the Philippines through these existing national authorities.

Mr. PASSMAN. Are these two countries returning to a more democratic form of rule?

Secretary SCHLESINGER. As for future trends, one can hope the national emergencies which preceded the recent political restructuring in Korea and the Philippines will ease and allow a subsequent readjustment of domestic forces to take place.

CAMBODIA

Mr. PASSMAN. Over the past year there has been a great deal of criticism concerning Cambodia. The United States supplies a large amount of aid to Cambodia but it has been said that because of the corruption a large amount of funds has been diverted into the pockets of Cambodian officials. One such criticism was that salaries were being paid to 100,000 nonexistent soldiers. Would you please comment on this situation and indicate what has been done?

Secretary SCHLESINGER. In late December 1972, various news media reported on a news conference given by Kheem Reth, the Information Minister of the Khmer Republic (Cambodia). At the conference, which was held to discuss Government efforts to eradicate corruption within the civilian and military establishment, the Khmer Government acknowledged that it had been overpaying military commanders about $2 million on monthly payrolls for soldiers who exist only on paper.

Rather than report on the Government's efforts to eradicate corruption, the media reported on the more lurid aspects of the situation, thus creating the impression that the U.S. Government was financing payroll padding and other corrupt practices with no concern for the consequences.

The facts are quite different. The military situation in the Khmer Republic and Southeast Asia was responsible for the expansion of the Cambodian Army from a strength of 35,000 men in 1970 to a projected level in excess of 200,000. The manpower, personnel, and finance systems of the Khmer were based on French colonial practices and incapable of coping with this rapid force expansion. Possibilities for corruption existed on every hand. This corruption, however, was directed against the Khmer Government and not the United States. Both the Khmer and United States Governments were aware of the implications from the first. Failure to expand the force structure would cause the military situation to deteriorate; failure to curb the corruption could cause economic collapse. The U.S. Government chose

to encourage the Khmer Government in management actions essential to the establishment of effective manpower, personnel, and finance systems. The Khmer Government has been receptive to this approach to the problem and is rapidly moving toward implementation of these systems.

The United States was also moving to provide economic assistance to the Khmer Republic. FAA title 1, security supporting assistance commodity import programs and Public Law 480 food-for-peace programs generated counterpart currencies for support of the Khmer national budget. The United States administratively retains some control over the portions of the budget to which these funds are applied. It determined they should be applied to elements of the defense budget, primarily pay and allowances. It was thus able to encourage management improvements under the implied threat of withholding release of these counterpart funds to the Khmer Government. The table following shows that the United States was supporting a significant portion, but not all of the Khmer defense budget.

	[In millions of dollars]	
	Fiscal year 1971	Fiscal year 1972
Cambodia commercial imports program	70.0	16.5
Food for peace program (80 percent country use portion)	6.8	16.6
Total	76.8	33.1

	[In billions of riels]		
	Calendar year 1971	Calendar year 1972	Calendar year 1973
Khmer defense budget	11.549	18.524	21.000
Counterpart generated and applied	1.745	5.430	[1] 1.963
Percent	15	29	

[1] Total of releases in Calendar year 1973 as of May 31, 1973. Total releases for calendar year 1973 are estimated at 7,000,000,000 riels. ($1 = about 220 riels).

The "phantom army" has not yet been eliminated, but the Khmer have appointed a new chief of staff and assistant chief of staff for personnel; begun institution of a uniform unit strength accounting system, defined units in the force inventory; dissolved and consolidated many units; and established a finance structure to centralize payroll operations. We believe these and other action underway will eliminate many of the corrupt practices of the past and contribute significantly to a sounder and more manageable national defense budget.

Ambassador Swank continues to give the matter his personal attention; but the problem has many ramifications and does not lend itself to easy or direct solution by U.S. elements in Cambodia. There has, however, been some slight improvement; and, in the meantime, we have responded to the very understandable interest and concern of the Congress by providing all available information to both the General Accounting Office in the field and to committee staff members who have visited Cambodia.

Mr. PASSMAN. Were any people convicted of wrong doing?

Secretary SCHLESINGER. In November 1972, the Khmer Armed Forces Chief of Staff announced the trial of Lt. Col. Sar Sakhone, a brigade commander, for payroll padding. Since then there have been unofficial reports of three or four other cases of disciplinary action against individual officers for this malpractice. However, the Khmer are seeking to eliminate payroll padding through tighter and more effective administrative procedures.

Mr. PASSMAN. It has also been said that despite large amounts of U.S. aid, the Cambodian Army is no match for the Communist forces. Would you please comment?

Secretary SCHLESINGER. The Khmer insurgent forces, supplied, cadred, trained, and supported by the North Vietnamese Army, have proved to be very tough opposition for the Cambodian Army despite the materiel and equipment we have given our friends. Still, the army of the Khmer Republic is in the field despite the Communist efforts to destroy the Khmer Republic. The capital at Phnom Penh, the major lines of communication and the major population centers remain under government control.

Mr. PASSMAN. What other forces are presently fighting in Cambodia besides Cambodians?

Secretary SCHLESINGER. The North Vietnamese; the Vietcong (South Vietnamese Communists); and prior to August 14, 1973, the U.S. Government conducted combat air operations.

Mr. PASSMAN. How many and what type of U.S. personnel are located in Cambodia?

Secretary SCHLESINGER. By act of Congress, the number of Americans in Cambodia is limited to 200. Of this number, approximately 50 percent are U.S. military personnel. The remainder are civilian employees of various U.S. Government agencies.

Mr. PASSMAN. Last year it was stated that some Cambodian officials were selling supplies to the Communist forces. Has this in fact happened and could some of the supplies which were sold have been provided by the United States?

Secretary SCHLESINGER. This was a report which came to us unofficially. Since then, we have had no confirmation that any activity of this nature has taken place. We have monitored this and will continue to do so through official contacts with the Khmer authorities and the visits and end-use inspections made by members of our mission in Phnom Penh.

SECURITY ASSISTANCE

Mr. PASSMAN. What countries are involved in the political justification for security assistance? What are the political objectives involved?

Secretary SCHLESINGER. President Nixon has provided a clearly defined perspective on the general purposes and goals of the security assistance program. As a vital instrument of U.S. foreign policy, security assistance is used to reinforce our efforts to develop a stable international system, one in which nations that look to the United States for support have the resources necessary to defend themselves against external attack or foreign domination.

Within this context, the emphasis we place on our efforts involves increased self-reliance on the part of recipient nations. Thus, our security assistance is intended to bolster the capacity of South Korea to meet any foreseeable attacks from the North, for Thailand to cope with externally-supported insurgent movements, for Jordan to deal with fedayeen or external threats, and for Israel to insure its capacity to meet any military crisis that may arise as a result of military action by neighbors unwilling to resolve area problems through peaceful negotiation.

At the core of this approach is the view that political and allied problems can be resolved in due course when the parties to a dispute recognize that a solution cannot be imposed by military means. In brief, our security assistance programs are intended to enhance the self-defense capabilities of selected nations to increase the likelihood that the political-diplomatic path will be followed in the search for a solution to regional problems.

That this course of action has political effect is reflected in current north-south talks on the Korean Peninsula, efforts to effect a cease-fire in Southeast Asia, the 3-year cease-fire in the Middle East, and the hopeful beginning in détente between the Soviet Union and the United States—hallmarked by the Strategic Arms Limitation Talks, as well as those relating to mutual balanced force reductions and European security.

Mr. PASSMAN. Would you give the committee a brief statement concerning the effectiveness of the present cease-fire arrangement in Southeast Asia and do you feel the cease-fire has progressed to the point where Cambodia, Laos, and South Vietnam could start a reconstruction program?

Secretary SCHLESINGER. The effectiveness of the cease-fire in Southeast Asia, or more properly, in the Republic of Vietnam, can be described from various points of view. From the viewpoint of a cessation of hostilities, it is unfortunate that sporadic fighting is still taking place and that the North Vietnamese are continuing to infiltrate men, materiel, and equipment into South Vietnam without regard to the provisions of the January cease-fire agreement or the subsequent communique. From the viewpoint which considers the intensity and duration of the enmity between the South iVetnamese and the antagonists, however, the relative peace which exists certainly points to the successes achieved in negotiation and leaves hope for continued improvement in relations between the contending parties. It is my belief that, as far as Vietnam is concerned, the level of fighting has been reduced to a point not only at which a reconstruction program could begin, but to a point at which a reconstruction program should begin. The replacement of the economic infrastructure and subsequent economic development should be initiated now so that Vietnam regains its footing as it passes successfuly through the post cease-fire period. Reconstruction programs for Cambodia and Laos should await the achievement of an effective cease-fire.

PRESENT SITUATION IN CAMBODIA

Mr. PASSMAN. Would you, Mr. Secretary, and Admiral Moorer, give us a briefing on the situation in Cambodia as of this time?

Secretary SCHLESINGER. I think Admiral Moorer might well do that.

Mr. PASSMAN. You are privileged, of course, to take from the record anything that is classified. What is the situation as of this time, Admiral Moorer? Does it look like we are going to get a peace agreement?

Admiral MOORER. First, if I may give the military situation. As you know, the activities of the insurgents have been aimed primarily at choking off the lines of supply into Phnom Penh; in particular, the Mekong River, Highway 4, which runs from old Sihanoukville—the main seaport of Cambodia—and Highway 5, which runs from the northwest into Phnom Penh and comes from the very rich rice-producing area of Battambang. All of the action that we have had, almost without exception, has been either directed at these lines of supply or at certain outlying population centers, such as Takeo and Kom Pong Cham.

The insurgents have been using hit-and-run tactics. Of course, the U.S. air effort has been designed and utilized in such a way as to support troops in combat, to assist in maintaining these lines of supply open, and to destroy enemy supply centers when they are in isolated areas, but not in population centers.

During the weekend, the Cambodians did succeed in first, getting an 8 ship convoy up the Mekong; second, in bringing about 337 trucks from Kompong Som into Phnom Penh loaded with rice and supplies and, third, bringing a convoy of 155 trucks loaded with rice into Phnom Penh from Battambang.

Generally speaking, as of today, the supply of the key requirements, namely rice and petroleum, is up to standard stock level.

However, the insurgents are continuing to direct their forces toward Phnom Penh. They have at the moment moved in along the Prek Thnot River, which is just south of Phnom Penh. They are really focusing most of their effort from the south toward the city and from the northwest toward the city. This is the situation today.

The insurgents have lost large numbers of people, but at the same time we have intelligence indications that they intend to persist in this effort.

One factor that will be brought to bear very shortly is the rainy season, which will cause that area to flood in many places and consequently restrict the areas in which the insurgents can maneuver and operate.

On the Cambodian side, of course, there is the Council of Lon Nol, Chengtleng, Sirik Matak, and In Tam—the four members—who in recent weeks, have put into effect a conscription law in an effort to provide more manpower for their own forces.

Things do go slowly in Cambodia. They started out from scratch with practically no capability in terms of military leadership or organization and things of this kind. So there is, in effect, now this kind of low-order combat which would be, as I say, aimed at primarily choking off Phnom Penh, from food and supplies.

One of the problems has been that the attacks on the outlying villages have caused many refugees to move into Phnom Penh. This, of course, aggravates the problem of the supply of rice and petroleum.

So far as the exact details of negotiations are concerned, I am not privy to those. As they now stand, the objective would be to first bring about a cease-fire.

Mr. PASSMAN. Are they continuing to negotiate?

Admiral MOORER. Yes, sir. Of course, this impacts on Hanoi. It impacts on Moscow and also on Peking.

But the basic objective would be to bring about a cease-fire and to establish some kind of arrangement which would end the conflict.

One has to recognize that if the North Vienamese have clear access to Cambodia, including the seaport, that the situation in South Vietnam would be put in jeopardy. That is one of the main reasons why Cambodia is so important.

Second, the Thais would be very perturbed if Cambodia were under full control of the Communists. That is the problem we are faced with at the moment.

DIFFICULTY IN CAMBODIA PREDICTED

Mr. PASSMAN. As I say, we have to deal with these facts as we see them. This administration concluded the South Vietnam war. I think now when we look back at it, the critics recognize that the President indicated great courage and great wisdom when he went into Cambodia and cutoff that sanctuary where there Communists would come across, hit us, and run back over there and enjoy their lemonade and have fun. I think it was a great move he made and it is also recognized in the mining of the harbors around Haiphong. I think that is generally recognized as one of the great decisions of a President.

Again, those bombers brought them back to the negotiating tables in Paris, everything indicates great wisdom and very careful planing for this man to conclude this war under most difficult circumstances.

But some of us now, who have been on this committee for 21 years, looking at the record, see that he is not going to be able to exercise that wisdom and knowledge in trying to deal with this situation in Cambodia.

What do you think is going to happen when August 15 comes and these people recognize that we can no longer provide air strikes? Do you think it's going to worsen?

Admiral MOORER. I think that is likely. It certainly makes the task of the Cambodian Government's forces much more difficult. Also, it will permit the NVA/VC negotiators to drive a harder bargin, bearing in mind, of course, that the North Vietnamese have never complied with article 20 of the Agreement, namely, that all foreign forces would be withdrawn from South Vietnam.

Mr. PASSMAN. That was the agreement that they agreed to live up to, did they not?

Admiral MOORER. Yes, sir. They have lived up to none of it. Consequently, Mr. Chairman, although, as I said before, things happen relatively slowly in Cambodia, I think it puts the Cambodian armed forces in a very precarious position.

Mr. PASSMAN. How could you get supplies into them when you remove that cover? Isn't that going to be rather difficult, to get supplies into Cambodia?

Admiral MOORER. Yes, sir. As I say, the enemy effort is directed toward the main lines of supply that feed Phnom Penh.

Mr. PASSMAN. Mr. Shriver?

Mr. SHRIVER. Thank you, Mr. Chairman.

SEPARATING TYPES OF CAMBODIAN TROOPS

Did you say there are about 75,000 Vietnamese troops in Cambodia opposing the Government there?

Admiral MOORER. Yes, sir. I would like to give you a table, if I may, sir, because you can get into all kinds of difficulties trying to separate out support troops, combat troops, North Vietnamese, and the different types of insurgent troops.

Mr. SHRIVER. When you are talking about Vietnamese, you are talking about those from North Vietnam?

Admiral MOORER. Yes, where you have the regular combat forces. Regular forces are 2,000 to 3,000 Vietcong and 3,000 to 4,000 NVA combat forces. The administrative services—those that are transporting materiel down from the Ho Chi Minh Trail on into the sanctuaries—consist of 2,000 to 3,000 Vietcong and 2,000 to 4,000 North Vietnamese. In the insurgents groups, which of course are Cambodians, there are 40,000 to 50,000. So you have somewhere in between 49,000 to 64,000 overall combination North Vietnamese, Vietcong, and insurgents. I will provide a table.

[The table follows:]

The continuing refinement of estimates produced the following new figures:

Insurgents	40,000–50,000
NVA:	
Combat	2,000– 3,000
Rear service	10,000–20,000
VC:	
Combat	1,000– 2,000
Rear service	2,000– 3,000
Total	55,000–78,000

Mr. SHRIVER. What is the size of the Armed Forces of the Government?

Admiral MOORER. About 180,000.

Mr. SHRIVER. What is that Government?

Admiral MOORER. Khmer Republic. About 180,000 would be the realistic answer.

Mr. SHRIVER. You don't think that would be adequate? It certainly would be, wouldn't it, if they had some material assistance? I don't mean our combat forces.

Admiral MOORER. Traditionally, we have always found, even in the Malay Peninsula and South Vietnam, it requires far more regular forces to fight the insurgents. You cannot fight them on a 1-for-1 basis because of the nature of the operations. This has been proven over and over again.

SOUTH VIETNAMESE AIR FORCE

Mr. SHRIVER. We see in the media, relative to the Air Force of South Vietnam, that they have the third largest or the third best Air Force in the world. Is it capable of taking over the need that you have described for air support?

Admiral MOORER. I don't think that the South Vietnamese Air Force would be in a position to replace, let's say, in total capability what the U.S. Air Force has been providing.

On the other hand, they do have a strong capability. The very significant question, of course, relates to the legalities under the peace agreement, the diplomatic arrangements, and the need for the South Vietnamese forces inside South Vietnam. All these have to be considered when one tries to determine what assistance the South Vietnamese can give in Cambodia. But they cannot replace the U.S. Air Force. It was never the intent, when setting up the South Vietnamese Air Force, to structure it in the image of the U.S. Air Force.

Secretary SCHLESINGER. I believe that MASF for that purpose is precluded under the present amendments to the Defense Appropriations Act, Mr. Shriver.

ENCOURAGING ARMS LIMITATION

Mr. SHRIVER. I want to endorse Chairman Passman's conclusions relative to sales of arms to other nations. We have arms limitations negotiations going on and are soon to be resumed. I mention this because of a report released June 19, 1973, by the Bureau of Intelligence and Research of the State Department, where they pointed out that Latin American arms spending averaged almost $300 million annually during the 6 years 1967 to 1972. The total was about $1.7 billion over that period. While this might not be a very large percentage of the total gross national product of these countries, 2½ percent to 3 percent, that amount of money certainly could have provided effective support for economic development. I realize that much of that comes from our allies in Western Europe; only 13 percent comes from the United States.

It seems to me that this problem should be a subject of some importance in any negotiations with our allies and with other suppliers.

There isn't anybody from the State Department here today, is there?

Secretary SCHLESINGER. No, sir.

Mr. SHRIVER. We are negotiating with the Soviet Union. I trust that these things enter into those negotiations, at least relative to selling arms over the world.

Is one of the reasons you advance, Mr. Secretary, for our continuing U.S. personnel in the NATO forces, the point that these arms negotiations are now going on?

Secretary SCHLESINGER. Yes, sir.

Mr. SHRIVER. The negotiations relate to arms balances worldwide, I presume, and not just to the United States and Russia.

Mr. PASSMAN. This is very important. If we may refer to the Secretary's statement on page 21, referring to nations;

> They prefer U.S. manufactured equipment, but they have clearly established a pattern of acquiring equipment from other foreign sources if they cannot obtain the equipment they want from the United States.

NATO MEETING IN TURKEY

Mr. SHRIVER. That is what I was contending a while ago.

Admiral, would you tell us more about your observations from the NATO meeting held in Turkey earlier this year?

Admiral MOORER. Yes, sir. I would be very happy to. I attended the nuclear planning group meeting of NATO. But after the meeting was over, I visited Turkey's headquarters, along with Admiral Peet. They briefed us on their requirements, and on their concerns.

One has to remember that the Turks have a common border with the Soviets. In spite of their very austere economy, they have put forward, I think, a very strong effort to protect the southern flank of NATO, certainly in the area of manpower.

Consequently, I believe our assistance to Turkey constitutes one of the most productive contributions we can make in terms of the overall defense of the NATO Alliance. The Turks, as you know, certainly demonstrated their fighting capability in Korea. They were outstanding over there. They are tough. They realize they are living right under the gun and they are willing to move forward with a firm effort to contribute to NATO.

But they do have, of course, economic problems and they do need assistance. They make the best. I believe, of what assistance is given them.

PHILIPPINE INSURGENTS

Mr. SHRIVER. You mentioned the insurgency forces in the Philippines in your statement.

Admiral MOORER. Yes.

Mr. SHRIVER. How many are there? Give us some background.

Admiral MOORER. This is a longstanding problem which stems from the argument over Sabah north of Borneo. The Muslims have been infiltrating, moving into Mindanao through Jolo Island and up through that island chain. There is quite a bit of smuggling that goes on in that area that the Philippine Government has been trying to resist. More recently there has been actual combat in Mindanao between certain elements of the Government forces and the Muslim insurgents. I believe the Philippine Government is now trying to come to an accommodation with these people.———. I have talked to some of the representatives of the Philippine Government on this problem.

The Muslim guerrilla type action has been financed, I think, in some cases all the way from ———. It's a longstanding problem that the Philippine Government must deal with. It's a harassing type of thing in the southern part of the Philippines. ——.

THAILAND GRANT AID

Mr. SHRIVER. You say on page 8 you anticipate reducing our grant aid as the Thai capability to counter the insurgency is achieved. In view of what you said a little while ago, do you foresee any timetable?

Admiral MOORER. We have been encouraging the Thais to emphasize their capabilities to deal with insurgency, most of which is in the northern part of Thailand, with some smaller amount toward the Malay Peninsula. I think it's fair to say that in the last 2 or 3 years the Thais have made significant improvement in this capability.

The point is that this really refers back to the importance of Cambodia, because it would be desirable for the Thais to be able to concentrate all their effort on their insurgency action rather than being concerned about the Communist threat next door in Cambodia also.

Mr. SHRIVER. It's the same thing; is it?

Admiral MOORER. No, sir; I don't think it's quite the same thing. These insurgents, as you know, are more or less a mixture coming down from the north. I don't think that there is the direct control over them by the North Vietnamese as one might expect if the North Vietnamese took over Cambodia.

Mr. SHRIVER. Coming down from the north of Thailand or coming from China?

Admiral MOORER. Some of them operate back and forth across the border of northern Laos and China, but mostly in the northern part of Thailand, sir.

TEN-PERCENT DEPOSIT REQUIREMENT

Mr. SHRIVER. You are proposing the repeal of section 514 of the Foreign Assistance Act, which requires a 10-percent payment to the United States for grant military assistance and excess defense articles. You say the recipients of this aid consider such a requirement to be meddling or intermeddling or insulting. Why would a 10-percent repayment be considered officious, intermeddling, whatever that is?

Admiral MOORER. I have had this expressed to me. They feel by virtue of the record, for one thing, that they have fulfilled their obligations with respect to the loans. And there is no question about the fact they will pay what they owe on time. They feel——

Secretary SCHLESINGER. There is a particular area where this is regarded as troublesome. That is in the education and training area. If we invite somebody to come to Fort Leavenworth, for example, for a year's education, a military man's education as part of the regular training establishment, he is more or less a guest. I think the countries in Latin America regard that deposit requirement as lacking in hospitality. Let me underscore the education and training part of this as being particularly meddlesome.

Mr. SHRIVER. Thank you, Mr. Secretary.

Mr. ROUSH. Is this a provision of the Foreign Assistance bill which was just reported out of committee, which we are going to be debating this week?

Mr. SHRIVER. It's part of what we have been operating under. It has been in there before. I don't know whether it's included in the one we will have up this week or not. They have asked for the repeal of it, so I assume the Committee on Foreign Affairs has considered that.

Admiral MOORER. They had discussed a percentage as high as 25 percent, I believe.

Mr. SHRIVER. I am informed it is out. My question is still good.

Mr. ROUSH. My objection still stands.

Mr. SHRIVER. Thank you.

Mr. PASSMAN. Thank you, Mr. Shriver. I yield to Mr. Long.

Mr. LONG. Thank you, Mr. Chairman.

RESTRICTION OF BOMBING INFORMATION

The decision to develop a cover story or in any case to show bombing in Cambodia as if it were taking place in Vietnam—to present those statistics to the Nation or to Congress or to whomever they went to—you say that this came from the highest levels of the administration. Is that right, Mr. Secretary?

Secretary SCHLESINGER. No, sir. I believe that the decision to strike at Cambodia in that time frame was a decision that came down from the highest levels. But there was also an order to inform as few people as possible.

The particular point you are referring to, which is the methodology that was used to keep the bomb totals accurate, was one that was worked out within the Department of Defense so that even though those people were precluded from knowing that we were striking at Cambodia at that time, the bomb totals would be accurate for other purposes.

Do I make myself clear, Mr. Long?

Mr. LONG. What I want to find out is who ordered the so-called falsification of thousands of reports that showed that the B–52 bomber pilots were blowing up South Vietnam instead of Cambodia. Who ordered creation of that separate erroneous set of records?

Admiral MOORER. I don't know who ordered it, sir. The instruction was, as I understand it—and I wasn't Chairman of the Joint Chiefs of Staff at that time—that the orders and results concerning the bombing in Cambodia would be sent by a special channel. Then, in the routine course of reporting, the scheduled flights, the expenditures of bombs and the fuel consumption would be fed into a computer. I don't know whether you have ever seen one of these printouts or not, but as Secretary Schlesinger said, it was primarily and almost solely for the purpose of handling the logistics support and procuring gasoline, positioning bombs, and things of this kind.

Obviously the objective was to not dilute or interfere with the logistics support which was vital, while at the same time maintaining in a very secure channel, for those who are authorized to have the information, what was taking place in the case of these special flights.

Mr. LONG. There was bombing going on. I think there were 3,600 sorties going into Cambodia. Nobody knew about this. The American public didn't know about it. Congress didn't know about it.

KNOWLEDGE OF BOMBING

Admiral MOORER. I beg your pardon, sir. The chairmen of the committees knew about it.

Mr. LONG. That is what I want to ask.

Admiral MOORER. That is my understanding.

Mr. LONG. The chairmen of each one of the committees knew about it? Did Chairman Hébert know about it?

Admiral MOORER. He wasn't chairman then. Mr. Rivers was chairman then. He knew about it.

Mr. LONG. Did Mr. Mahon know about it?

Admiral MOORER. I am not sure. I am answering you from secondhand knowledge because I don't know who was informed by Mr. Laird or others. I have been told that Mr. Stennis knew about it.

Mr. LONG. Did Mr. Laird know about the doctoring of the statistics on the bombing runs? Did Mr. Laird know about it?

Admiral MOORER. I am sure that Mr. Laird was aware that these special precautions were being taken, because he was familiar in detail with the operation, I would think.

Mr. LONG. Are you saying that as a supposition or are you saying it as a statement?

Admiral MOORER. The Secretary of Defense is aware of all the operations that are going on.

Mr. LONG. I have a statment here that Mr. Laird emphatically denied any complicity in the falsification of official bombing reports.

Admiral MOORER. You are coming right back to the point that the Secretary made some time ago, sir. That is that——

Mr. LONG. It's a question of whether it's a falsification or coverup or what have you. No one wants to call it falsification.

Admiral MOORER. No one was deliberately falsifying a report because the report was complete when you read both parts of it.

Mr. LONG. The point is the report showed 3,600 bombing raids taking place in Vietnam when they really took place in Cambodia.

Admiral MOORER. Yes, sir. But the people who needed the information also had the other report. They could read it in its entirety and knew exactly what was going on.

RESPONSIBILITY FOR COVERUP

Mr. LONG. They must have known, did they not, that Congress was not being told about this. After all, 3,600 bombing sorties is quite something. It took place over a period of a year or so. Let's grant that they knew about the bombing. But didn't they also know that information was being withheld from the public?

Admiral MOORER. Certainly from the public, sir. That was the order at that time: to keep a minimum number of people aware of the operation; only those who needed to know.

Mr. LONG. So Mr. Laird knew about the fact that an erroneous set of information was being presented to the public?

Admiral MOORER. I don't think I should answer that. I don't agree with that.

Mr. LONG. Mr. Laird knew about a cover story. He knew that the full story was not being told to the public. Is that correct?

Admiral MOORER. I think you should ask Mr. Laird what he knew about it, because I wasn't Chairman of the Joint Chiefs of Staff at that time.

Mr. LONG. Mr. Friedheim on Thursday placed the responsibility for releasing the so-called false information on Deputy Defense Secretary William P. Clements, Jr. and Admiral Thomas A. Moorer. What was your role in this, Admiral Moorer? You knew about the bombing, of course?

Admiral MOORER. Yes, as a member of the Joint Chiefs of Staff, I knew about the bombing.

Mr. LONG. Did you know that there were two sets of data being kept, so that the public thought bombing was taking place in Vietnam when it was actually taking place in Cambodia? Did you know that?

Admiral MOORER. I am not responsible for the data that is presented to the public. I do not release information. I did know of the data base limitations since the JCS is responsible for the maintenance of the data base.

Mr. LONG. What about the Armed Forces?

Admiral MOORER. Mr. Friedheim made the statement that Mr. Clements and I were the senior civilian and military officials in the building at the time. I do not have the responsibility for our congressional relations. Neither do I ever make press releases.

Mr. LONG. So you disclaim all responsibility for any disingenuousness, or whatever you want to call it, that resulted in the public not knowing that bombing was taking place in Cambodia?

Admiral MOORER. I am not responsible. I do not disclaim that I knew about the operation.

Mr. LONG. So that you dispute what Secretary Friedheim says?

Admiral MOORER. Yes, sir. I don't agree with what he said in terms of having a joint responsibility for this. The military people, as the Secretary said, carry out orders. We do not make arrangements with the Congress on our own.

Mr. LONG. Who ordered you to keep this a secret or to cover this up so far as the public was concerned or to let as few people know about it as possible?

Admiral MOORER. I go back to the time when this was initiated. I was not the chairman. The instructions, as I understand it, were twofold.

Mr. LONG. Were you Chairman during any time that this bombing took place?

Admiral MOORER. No, sir. It finished with the cross border operations in April 1970. I became Chairman in July of 1970. I want to make it clear that I was fully aware of the fact they were bombing across the border, sir. I was aware of that. But so far as the detailed planning, and so on was concerned, I normally would not attend a meeting, that was involved in that kind of close-held planning, as the Chief of Naval Operations. That is what I was at the time.

SORTIE INFORMATION ACCURACY

Mr. LONG. I have an article that says that the senior Pentagon official made a blunder, a "blunder of some magnitude," by twice sending to Congress falsified reports.

Mr. PASSMAN. That is a newspaper article?

Mr. LONG. Yes.

Secretary SCHLESINGER. That is an accurate quote from Mr. Friedheim.

Mr. LONG. A senior Pentagon official made a blunder, a "blunder of some magnitude" by twice sending to Congress falsified reports. We will say that the word "falsified" is the reporter's term.

Secretary SCHESINGER. I think in that case these were inaccurate reports.

Mr. LONG. It's an inaccurate report?

Secretary SCHLESINGER. Let me try——

Mr. LONG. The Pentagon is not sorry and does not apologize for this in any sense?

Secretary SCHLESINGER. That is not correct, sir. We indicated very clearly that insofar as inaccurate information was provided, in the last 18 months approximately, that that was the result of an error.

Mr. LONG. You would say that inaccurate information was furnished to Congress?

Secretary SCHLESINGER. Yes, sir. Let me review that for you, if I may take a moment. As I indicated earlier, there was a cover story. The cover story involved the diversion of raids from Vietnam to Cambodia. Accurate bombing totals were kept. These were reflected in the data bank as strikes against South Vietnam so that the logisticians,

the comptroller's office, and others would know what was being expended, though not necessarily what the targets were.

In addition to that and separate from it, there was an accurate reflection of the targeting that was known to those who had a need to know.

Unfortunately, when this information went to the Hill—I believe at the time Mr. Seamans was Secretary of the Air Force and one time when Mr. Richardson was Secretary of Defense—the data that was being churned out of the data base was not integrated with the accurate targeting information, so that, unfortunately, inaccurate information was sent to the Hill at that time. I think that was a blunder and we are sorry that that occurred.

DETERMINING "NEED TO KNOW"

Mr. LONG. Thank you very much.

You use the term "need to know"; that is to say the information about what bombing was taking place and where it was taking place was confined to those who needed to know. Who do you feel is covered by that "need to know" and who is excluded from it? Would you say Congressman Long had any need to know this?

Secretary SCHLESINGER. Of course, I have to speculate at the time. That depends on how the Congress wishes to conduct its affairs. It seems to me that in such circumstances it is necessary as part of the American system to have that information available to the Hill. Just how broadly it should be available on the Hill depends upon the methods according to which the Congress structures itself.

Within the Military Establishment, within the DOD, the rule is that the fewest possible should know because that provides the minimum of leaks.

I don't think that Admiral Moorer or any of the chiefs or any of the commanders are offering advice to the civilians or the political appointees anywhere in the Government with regard to the extent and breadth and depth of the knowledge to be provided on the Hill or elsewhere.

RESTRICTING THE PROVISION OF INFORMATION

Mr. LONG. I have a statement here. You can say whether you think it's accurate or not. The statement says:

> The information was given to a couple of sympathetic members of the Senate Armed Services Committee. From that point of view, the services then had carried out what they felt was their responsibility for telling Congress about it.

Admiral MOORER. Not the services. The services do not reveal this kind of information. That is a point I think we have to get clear.

Secretary SCHLESINGER. It's not the duty of the military to provide this information. It's the duty of the civilian leadership. Whether it was too narrow or too broad is not a question here.

Mr. LONG. I quote, "The Pentagon satisfied its notion of honor by tipping off two sympathetic members of the Armed Services Committee."

Secretary SCHLESINGER. I think the list of people informed is much longer than that.

Mr. LONG. Could we have a list of who was informed?

Mr. PASSMAN. The Speaker can clear that up. One of the first men informed is the Speaker of the House of Representatives.

You were dealing in a bloody war where we were having Americans killed every day. This was not just a futile exercise. What you were trying to do was win the war and save American lives. The commander, those responsible, must have gotten through to the President or whoever that we needed to do this and it was approved. But this was during the bloody war and the ends justified the means in all probability.

Mr. LONG. We can differ on that. I think the American people are increasingly disturbed because, after all, the war at that time had never been extended to Cambodia. This was before the orders were given for the South Vietnamese troops to invade Cambodia. This was the preinvasion of Cambodia. Cambodia was a brandnew ball game so far as this was concerned.

When 3,600 bombing sorties had taken place in Cambodia before we knew anything about our involvement in Cambodia at all, then I think we are in a somewhat different situation than keeping the lid on tactical operations so that the enemy doesn't know about what they are.

Secretary SCHLESINGER. I appreciate your point, Mr. Long. The point I am making, however, is that if the military establishment is told to do something, and information about what it is doing is restricted, then the fact that the military establishment is responding correctly to its orders is not widely known.

SOURCE OF RESTRICTION ON INFORMATION

Mr. LONG. I would like to know whether that order came from the President to do this and to tell just as few people as possible, only the people who had a "need to know." That was a very narrow list.

Secretary SCHLESINGER. I cannot give you the specifics. The order certainly came from the White House.

Mr. LONG. But you cannot specify that it came from the President?

Secretary SCHLESINGER. I am sure the President approved the bombing himself.

Mr. LONG. But not necessarily the withholding of information or whatever you want to call it. Use a hard word or a soft word. What would you say about that, admiral?

Admiral MOORER. As I believe we said earlier, the President as Commander-in-Chief authorizes every operation of this kind. What we are saying is we had total civilian control of this operation.

Sir, I would like to make one other point associated with that.

Mr. LONG. We hope we do.

Admiral MOORER. I guarantee you we do.

UNAUTHORIZED BOMBING

Mr. LONG. There is the case of General Lavelle.

Secretary SCHLESINGER. That is one point we wish to make, Mr. Long. There has been a comparison between this and the Lavelle affair, in which there was unauthorized bombing. This is entirely different. This is an example of civilian control working effectively, meticulously. One can disagree or agree with the policy decision, but there is no question that civilian control was maintained and appropriate orders were followed.

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Mr. LONG. In other words, this is quite a different thing from the Lavelle case?

Secretary SCHLESINGER. Yes, sir.

Admiral MOORER. Of course.

Mr. LONG. I brought the Lavelle case up because you said that these things don't happen without being authorized. In that case it did.

Admiral MOORER. But it was stopped.

Mr. LONG. Many people still think General Lavelle acted on orders, which were then disavowed. Whether they were right or wrong in thinking that, many people feel that way.

Admiral MOORER. They were wrong. He did not have orders to do what he did.

Mr. LONG. All I can say is that if the poor guy did act on orders, I feel sorry for him.

BOMBING REDUCED SCOPE OF WAR

Admiral MOORER. Could I add one point? When you are talking about bombing Cambodia, I think you have to remember, Mr. Long, as I am sure you do, that these sanctuaries were located along an ill-defined border. We are talking about targets just on the edge of the border.

Second, the North Vietnamese, in total violation of the 1954 Geneva Accords, were down there in division strength. I think the idea of leaving them with this sanctuary indefinitely did nothing more than add to U.S. casualties.

Mr. LONG. I am inclined to agree with that. After all, my son fought in that war with the 101st Airborne. He had to fight these guys and knew where the weapons were coming from.

When we went into Cambodia, we greatly enlarged the war so far as we were concerned. We made a tremendous policy decision that I think the American people had a right to participate in.

Admiral MOORER. Yes, sir. But I don't think we enlarged the war. I think we reduced the war.

Mr. LONG. We were supposed to be out of Vietnam, but we are still in Cambodia.

Admiral MOORER. We don't have any combat troops in Cambodia.

Mr. LONG. But we are bombing in Cambodia, and that endangers American lives and costs money and fuel and all that kind of thing.

Mr. PASSMAN. If the gentleman will yield. Didn't going into Cambodia help conclude the war?

Mr. LONG. That is a matter of opinion.

Mr. PASSMAN. The record shows it had a lot to do with shortening the war. You certainly saved lives, did you not? Isn't the record sufficiently clear on that?

Admiral MOORER. Yes.

Mr. LONG. You may be quite right about that, Mr. Chairman. All I am saying is that we are a democracy. The American people do have a right and the congressional representatives have a right to participate in these decisions. We did not have a chance to participate in that decision in regard to the extension of the war to Cambodia. You are probably right so far as bombing the trails and all that. From a strictly military point of view it probably was an advantageous military move. But from the standpoint of policy and strategy, that is another question. Here I think the whole Congress had a right to participate.

EFFECT OF PUBLIC KNOWLEDGE

Mr. PASSMAN. Could I ask Dr. Long at this point what would have happened if the public had known we were developing the A bomb? You got the money through the Congress. You developed it and were ready to use it and you had less than 50 Members of Congress who knew anything about it. What would have happened if you had let the public in on the fact that we only had two of those bombs and if we had dropped both of them what would have happened? During war time there are certain things that you have to withhold from the American public.

Mr. LONG. Mr. Chairman, if I could interrogate the witness——

Mr. PASSMAN. Let's understand it's the prerogative of the chairman to keep this record straight, and I will do so when it's necessary. You proceed normally.

Mr. LONG. I might point out, of course, that that was a total war.

NEED FOR SECRECY IN WARTIME

We knew what war we were in. We weren't branching out into new wars and into new countries.

Secretary SCHLESINGER. I think in that case the invasion of North Africa, at which time the United States was not involved with the government of Vichy France, is something that is parallel to this.

Our point is that in wartime, secrecy must be maintained. I think you agree with that.

Your question, I think, goes to whether this was so widesweeping a policy decision that the confines of secrecy ought to have been reconsidered.

Mr. LONG. Exactly. I think you put it very well, Mr. Secretary. I suppose secrets do have to be maintained in war. The more all-out and total war it is, then probably the more total the secrecy should be, although I think Hitler ruined his country because he was able, under his system, to keep secrets. He got his country involved in a war that ruined his own country. He would have benefited, it seems to me, in talking over policy with the German equivalent of Congress. But that is quite a different matter.

Secretary SCHLESINGER. The point I wish to emphasize is that the Air Force people and the military people did what they were required to do by civilian control. They should not be credited or blamed in this exercise.

Mr. LONG. That is where we come up with a problem, because apparently some Senators don't feel that way. We have Senator Hughes accusing him of a deliberate lie and Senator Symington, I believe, is quite irate about it, although this is not expressed in explicit terms.

Secretary SCHLESINGER. I think he is not directing his irateness toward the Department of Defense in this matter.

Mr. LONG. I don't know who is guilty in this. All I do know is that we did bomb another country which we had never officially bombed before, and we presented the statistics as if we were bombing in Vietnam. That, to me, is quite a serious thing. While it might be justified as the chairman says, in total war, this was a long way from being a total war. This is a very small war from the standpoint of a threat to our total national security.

I would hope that we would keep these things in perspective. The idea that because you do something in a total war that you are justified in doing this in any kind of a war you get into is a distorted interpretation of national security.

FUTURE COVER STORIES

Whatever you call this, whether you want to call it a falsification or whether you want to call it erroneous statistical reporting, or whether you want to call it a coverup, or whether you want to call it a cover story, or a confining of information to those who are on a need-to-know basis, would you, as Secretary of Defense, agree to such a step again in the future?

Secretary SCHLESINGER. It would depend on the circumstances entirely.

Mr. LONG. Under the same circumstances?

Secretary SCHLESINGER. That is a difficult question to answer because the circumstances can never be the same.

Mr. LONG. All I am asking is in the same circumstances.

Secretary SCHLESINGER. You mean with the public attitudes that we had in 1969 and congressional attitudes that we had in 1969 as opposed to 1973? Or are you talking about the congressional attitudes of 1973?

Mr. LONG. I don't know that the congressional attitudes are very different now from then. More people want to get out of the war now than did then. So it would probably have been safer for you to have released the information then than now.

Secretary SCHLESINGER. I think in 1969 and earlier it was an accepted technique on the Hill that certain key committee chairmen be informed, and be consulted on their decision as to how widely knowledge should be spread throughout the Congress, and that this was acceptable to people who were not committee chairmen.

Mr. LONG. Would you now concede that a different atmosphere prevails and, given the new feeling in Congress and in the country, that you would pursue quite a substantially different policy?

Secretary SCHLESINGER. I certainly would recommend it, Mr. Chairman.

Mr. PASSMAN. Weren't you just on the edge of Cambodia? You were not way into the interior. You were bombing on the fringe?

Secretary SCHLESINGER. We were bombing sanctuaries that were being utilized by the North Vietnamese along the edge of the border.

Mr. LONG. To use an illustration that the chairman has used many times, isn't that like being a little bit pregnant? If something took place like this without your knowledge and it came to your attention, would you make it public?

Secretary SCHLESINGER. In response to the first part of your question, if something were carried on within the Department of Defense without my knowledge, that would not be a tolerable act. That would be intolerable to me and I would punish whomever was responsible.

Mr. LONG. These are two things, of course. One was the bombing, which you did under orders. The other one was coming up with a set of statistics which was very misleading, at least so far as many Congressmen are concerned.

Secretary SCHLESINGER. And it was an error. I keep emphasizing the fact that that was a mistake.

Mr. LONG. Would you undertake to fix the responsibility and discipline the person who was responsible for that?

Secretary SCHLESINGER. Yes, indeed. Yes, indeed.

Mr. LONG. Thank you very much, Mr. Secretary. This has been very useful and very informative.

Are there any circumstances concerning security assistance (all transfers of resources, including those forms which require no appropriation, such as excess defense articles) in which you would consider falsifying reports on the amount of aid furnished—as was done concerning Cambodian bombing in 1969–70?

Secretary SCHLESINGER. There was no falsification of the record with regard to the B–52 bombing in Cambodia, and there are no circumstances in which we would falsify reports on the amount of aid furnished. As I stated earlier, in the case of the 1969–70 B–52 operations over a small segment of Cambodia, U.S. forces in South Vietnam were engaged in battle with an enemy who used this area as a sanctuary. The operations were necessary to save American lives but could not be made a matter of public record for diplomatic reasons. No such circumstances would pertain with regard to security assistance.

In this regard, it should be noted that military assistance at the Governments of South Vietnam and Laos is not part of the security assistance program but is funded by the appropriate services as part of the defense budget.

LATIN AMERICA

Mr. LONG. The administration foreign aid bill proposed to remove the ceiling on military cash sales to Latin America and to raise the ceiling on military credit sales and military grant aid to Latin America.

The administration argues that if the United States doesn't sell these countries arms, someone else will.

Has the United States tried to negotiate an agreement with other arms suppliers not to sell arms to Latin America as a sort of arms nonproliferation treaty?

Secretary SCHLESINGER. The United States has looked to the Latin American nations to take the initiative in limiting the introduction of armaments into the region. The Latin Americans have proposed several arms control measures from time to time, beginning in 1902. The most recent initiative by Colombia in 1971 resulted in approval by the OAS General Assembly in 1972 of a general resolution interpreting a declaration made by the Latin American Presidents in 1967 to the effect that it was the aim of the Latin American Governments to apply maximum resources to economic and social development and to restrict military expenditures to those indispensable to the requirements each state deems necssary for its own security. Beyond this very general sentiment of intention, the Latin American countries have not been able to agree to a more specific or binding commitment.

The United States has demonstrated support for arms control in Latin America and has continued to welcome initiatives from the region. It should be recognized, however, that the Latin American nations view the maintenance of a military establishment with modern

armaments as a basic appurtenance of national sovereignty. Any attempt unilaterally by the United States or multilaterally with other arms-supplier nations to restrict their quest to modernize their military forces would be viewed by the Latin American nations as paternalistic and as an unnecessary interference in their internal affairs. We will nevertheless continue to support proposals for regional arrangements as we have done in the United Nations and other regional fora, including the OAS, to seek to build an international consensus on the transfer of conventional arms.

Mr. LONG. Why don't we just cut off all our aid if they continue to buy arms from other suppliers?

Secretary SCHLESINGER. Despite the recent upsurge in military equipment purchases by the Latin American nations, the region expends an average of less than 2 percent of its GNP for military purposes. This is the lowest total of any region of the world.

We believe that the suspension of aid to any Latin American country in retaliation for their purchase of military equipment from other suppliers would be viewed as unnecessary interference in their sovereign affairs.

Recent history has indicated that unilateral attempts to restrict the importation of weapons to levels below those which the Latin American nations perceive to be necessary are not successful. Rather, they cause unnecessary irritations in our mutual relations, often increase rather than decrease the levels of sophistication of weapons which they finally acquire, and divert Latin American military purchases to other countries to the detriment of our balance of payments.

FUNGIBILITY OF FUNDS

Mr. LONG. Is it not true that given fungibility of funds, there is no way to prove that our economic aid to Latin American countries does not go for military purchases or does not make possible the use of other resources for military purchases?

Secretary SCHLESINGER. I am not aware of any conclusive data demonstrating the diversionary effects of Latin American military expenditures on the rate of economic growth. The bulk of their military expenditures have been absorbed by personnel costs, as in the United States, which has left only modest sums for major material procurement. In addition to their traditional military functions, the military in many Latin countries participate actively in civic action programs promoting economic and social development. Since the percentage of GNP devoted to military expenditures has averaged approximately 2 percent for the past several years, we tend to believe that the reallocation of this small amount to civilian purposes would have little overall effect on Latin America's economic growth.

MIDDLE EAST

Mr. LONG. Mr. Secretary, do you feel that the proposed arms sales to Saudi Arabia and to Kuwait will provide "support for indigenous regional collective security efforts * * *", a quote from a statement by Assistant Secretary of State Joseph J. Sisco June 6, 1973, before House Near East Subcommittee. Is not the real purpose of these arms sales to aid our efforts to obtain a sufficient supply of crude oil from

these two major suppliers and secondly, to aid our balance of payments?

Mr. SCHLESINGER. Dr. Long, I don't think it's quite that simple or clear cut. Currently, the United States obtains only a small percentage of its oil imports from Middle East sources but there's no question that our interest in Middle East oil supplies is increasing substantially. The motivation for U.S. arms sales in the Persian Gulf area, however, is the product of a more complex set of factors.

First of all, arms sales, although an important element, is only one instrument in our relationships with states bordering the Persian Gulf. There are important political and economic elements as well.

Second, we are not forcing our arms on these nations, but rather, responding to their requests. This is consistent with our policy to encourage friendly states in the area to assume the responsibility for their own defense and to encourage the larger states in the area to cooperate among themselves and with the smaller states to assure the collective security of the area.

Third, in the case of Saudi Arabia, the supplying of U.S. arms is by no means a recent development. For example, there are substantial Saudi Arabia defense programs involving U.S. commercial or governmental assistance which date well back into the 1960's, well before the current surge of interest in energy problems. Currently, the Saudis are deeply concerned over the security threat posed by Iraq and the PDRY, both armed and supported by U.S.S.R. Our programs clearly demonstrate our interest in their security and provide support for the Saudi role in the security of the area as a whole.

In the case of Kuwait, we have been responding to their initiative following the British decision to end its protective treaty relationship and to withdraw its operational military forces in the area by the end of 1971. The Kuwaitis first came to us in the summer of 1971, seeking U.S. assistance in strengthening their defenses. We first sent a survey team to Kuwait in early 1972. And although there have been rather intensive negotiations this spring and summer, again in response to their initiative, no contracts have yet been signed.

Concerning balance of payments as a causative factor in our arms sales—these sales do, of course, assist in coping with the adverse balance of payments or BOP, but I know of no case in the entire Middle East area in which the BOP has been the principal element, or even a major element, in a U.S. decision to sell. Rather, these decisions have been based on a combination of political and military factors; the BOP benefit has been a bonus.

In summary, I would say that a number of important and interrelated objectives form the basis of U.S. policy in the Persian Gulf area and access to oil is certainly one of these.

CAMBODIA

Mr. LONG. Is it not likely that the present Cambodian Government will fall to the Communist forces. If so, will not all our military aid fall into the hands of the Communists—all the military supplies that the United States has furnished?

Mr. SCHLESINGER. We cannot predict whether or not the Government of the Khmer Republic will be able to continue its resistance. It is making a serious effort to defend itself and we are trying to provide

it the means to do so. More than half the military assistance we are furnishing the GKR consists of expendables such as munitions which are used up at a rapid rate. In other cases, supplies can be destroyed before being captured.

CREDIT SALES

Mr. LONG. Please provide for the record the following table.

(*a*) Projected FMS (credit sales) repayments by country from fiscal year 1974 through fiscal year 1995 separated into principal and interest with the assumption that FMS credit sales will continue at the levels requested for fiscal year 1974 until 1995.

(*b*) Then subtract repayments from credits in a separate column, showing positive and negative amounts.

(*c*) Show in a separate column the FMS credit sales to be granted each country under the assumption in (*a*).

(*d*) Do not include Israel in this table but make a separate table for Israel with the following information:

(1) Total FMS credit sales by fiscal year since beginning of the program. After fiscal year 1973, continue FMS credit sales at the level of $300 million per year up to 1985.

(2) Repayments by fiscal year from the beginning of the program through fiscal year 2000—separated into principal payments, interest payments, and total repayments.

(3) Outstanding balance in the final column.

Secretary SCHLESINGER. The information requested is contained in the following tables.

[The tables follow:]

GOVERNMENT OF ARGENTINA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See Note) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 51,800
1974	22,500	9,500	1,100	64,800
1975	22,500	10,750	3,078	76,550
1976	22,500	12,400	4,108	86,650
1977	22,500	14,050	3,174	95,100
1978	22,500	14,700	3,276	102,900
1979	22,500	15,050	3,474	110,350
1980	22,500	17,300	3,786	115,550
1981	22,500	19,150	4,098	118,900
1982	22,500	19,600	4,434	121,800
1983	22,500	20,550	4,878	123,750
1984	22,500	22,500	5,400	123,750
1985	22,500	22,500	5,400	123,750
1986	22,500	22,500	5,400	123,750
1987	22,500	22,500	5,400	123,750
1988	22,500	22,500	5,400	123,750
1989	22,500	22,500	5,400	123,750
1990	22,500	22,500	5,400	123,750
1991	22,500	22,500	5,400	123,750
1992	22,500	22,500	5,400	123,750
1993	22,500	22,500	5,400	123,750
1994	22,500	22,500	5,400	123,750
1995	22,500	22,500	5,400	123,750

NOTE: The information presented in the following tables has been developed based upon assumptions outlined in the question. The DOD does not agree that these basic assumptions are valid and therefore the table is necessarily distorted. Any analyses derived from this data must also further these inherent distortions and cannot be considered a valid basis for any conclusions.

GOVERNMENT OF AUSTRIA
FMS CREDIT PROJECTIONS
FY 1974

FISCAL YEAR	FMS CREDITS	REPAYMENTS PRINCIPAL	REPAYMENTS INTEREST	BALANCE
1963 & Prior	$	$	$	$ 2,500
1974	-0-	$ 2,500	-0-	-0-

GOVERNMENT OF BOLIVIA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ -0-
1974	4,000			
1975	4,000	400	96	7,600
1976	4,000	800	192	10,800
1977	4,000	1,200	288	13,600
1978	4,000	1,600	384	16,000
1979	4,000	2,000	480	18,000
1980	4,000	2,400	576	19,600
1981	4,000	2,800	672	20,800
1982	4,000	3,200	768	21,600
1983	4,000	3,600	864	22,000
1984	4,000	4,000	960	22,000
1985	4,000	4,000	960	22,000
1986	4,000	4,000	960	22,000
1987	4,000	4,000	960	22,000
1988	4,000	4,000	960	22,000
1989	4,000	4,000	960	22,000
1990	4,000	4,000	960	22,000
1991	4,000	4,000	960	22,000
1992	4,000	4,000	960	22,000
1993	4,000	4,000	960	22,000
1994	4,000	4,000	960	22,000
1995	4,000	4,000	960	22,000

GOVERNMENT OF BRAZIL
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 62,700
1974	56,000	12,100	1,881	106,600
1975	56,000	17,400	4,380	145,200
1976	56,000	20,000	5,016	181,200
1977	56,000	23,900	5,832	213,300
1978	56,000	29,000	6,750	240,300
1979	56,000	34,500	7,698	261,800
1980	56,000	37,900	8,652	279,900
1981	56,000	43,500	9,738	292,400
1982	56,000	45,600	10,824	302,800
1983	56,000	50,800	12,120	308,000
1984	56,000	56,000	13,440	308,000
1985	56,000	56,000	13,440	308,000
1986	56,000	56,000	13,440	308,000
1987	56,000	56,000	13,440	308,000
1988	56,000	56,000	13,440	308,000
1989	56,000	56,000	13,440	308,000
1990	56,000	56,000	13,440	308,000
1991	56,000	56,000	13,440	308,000
1992	56,000	56,000	13,440	308,000
1993	56,000	56,000	13,440	308,000
1994	56,000	56,000	13,440	308,000
1995	56,000	56,000	13,440	308,000

GOVERNMENT OF CHILE
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 36,700
1974	10,000	6,500	1,101	40,200
1975	10,000	5,100	2,052	45,100
1976	10,000	7,400	2,046	47,700
1977	10,000	8,300	1,962	49,400
1978	10,000	9,500	1,884	49,900
1979	10,000	10,300	1,794	49,600
1980	10,000	9,600	1,716	50,000
1981	10,000	8,000	1,740	52,000
1982	10,000	8,000	1,920	54,000
1983	10,000	9,000	2,160	55,000
1984	10,000	10,000	2,400	55,000
1985	10,000	10,000	2,400	55,000
1986	10,000	10,000	2,400	55,000
1987	10,000	10,000	2,400	55,000
1988	10,000	10,000	2,400	55,000
1989	10,000	10,000	2,400	55,000
1990	10,000	10,000	2,400	55,000
1991	10,000	10,000	2,400	55,000
1992	10,000	10,000	2,400	55,000
1993	10,000	10,000	2,400	55,000
1994	10,000	10,000	2,400	55,000
1995	10,000	10,000	2,400	55,000

GOVERNMENT OF CHINA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 172,600
1974	65,000	26,200	5,178	211,400
1975	65,000	34,400	10,344	242,000
1976	65,000	34,300	10,230	272,700
1977	65,000	30,200	10,122	307,500
1978	65,000	27,300	10,260	345,200
1979	65,000	27,100	10,572	383,100
1980	65,000	20,600	10,896	427,500
1981	65,000	13,700	11,610	478,800
1982	65,000	9,700	12,738	534,100
1983	65,000	7,600	14,106	591,500
1984	65,000	65,000	15,600	591,500
1985	65,000	65,000	15,600	591,500
1986	65,000	65,000	15,600	591,500
1987	65,000	65,000	15,600	591,500
1988	65,000	65,000	15,600	591,500
1989	65,000	65,000	15,600	591,500
1990	65,000	65,000	15,600	591,500
1991	65,000	65,000	15,600	591,500
1992	65,000	65,000	15,600	591,500
1993	65,000	65,000	15,600	591,500
1994	65,000	65,000	15,600	591,500
1995	65,000	65,000	15,600	591,500

GOVERNMENT OF COLOMBIA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	20,900
1974	15,000	3,200	627	32,700
1975	15,000	4,300	1,422	43,400
1976	15,000	5,900	1,614	52,500
1977	15,000	7,300	1,800	60,200
1978	15,000	8,900	1,992	66,300
1979	15,000	9,900	2,178	71,400
1980	15,000	11,000	2,394	75,400
1981	15,000	12,400	2,634	78,000
1982	15,000	15,000	2,880	78,000
1983	15,000	15,000	3,240	78,000
1984	15,000	15,000	3,600	78,000
1985	15,000	15,000	3,600	78,000
1986	15,000	15,000	3,600	78,000
1987	15,000	15,000	3,600	78,000
1988	15,000	15,000	3,600	78,000
1989	15,000	15,000	3,600	78,000
1990	15,000	15,000	3,600	78,000
1991	15,000	15,000	3,600	78,000
1992	15,000	15,000	3,600	78,000
1993	15,000	15,000	3,600	78,000
1994	15,000	15,000	3,600	78,000
1995	15,000	15,000	3,600	78,000

GOVERNMENT OF ECUADOR
FMS CREDIT PROJECTIONS
FY 1974

FISCAL YEAR	FMS CREDITS	REPAYMENTS PRINCIPAL	REPAYMENTS INTEREST	BALANCE
1973 & Prior		$	$	$ 600
1974	-0-	600	200	-0-

GOVERNMENT OF EL SALVADOR
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ -0-
1974	500	-0-	-0-	-0-
1975	500	50	12	950
1976	500	100	24	1,350
1977	500	150	36	1,700
1978	500	200	48	2,000
1979	500	250	60	2,250
1980	500	300	72	2,450
1981	500	350	84	2,600
1982	500	400	96	2,700
1983	500	450	108	2,750
1984	500	500	120	2,750
1985	500	500	120	2,750
1986	500	500	120	2,750
1987	500	500	120	2,750
1988	500	500	120	2,750
1989	500	500	120	2,750
1990	500	500	120	2,750
1991	500	500	120	2,750
1992	500	500	120	2,750
1993	500	500	120	2,750
1994	500	500	120	2,750
1995	500	500	120	2,750

GOVERNMENT OF GREECE
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$.147,300
1974	65,000	10,200	4,419	202,100
1975	65,000	15,100	9,786	252,000
1976	65,000	17,600	10,830	299,400
1977	65,000	25,100	12,168	339,300
1978	65,000	25,100	12,168	379,200
1979	65,000	25,100	12,612	419,100
1980	65,000	25,100	13,056	459,000
1981	65,000	23,100	13,500	500,900
1982	65,000	23,100	14,064	542,800
1983	65,000	16,300	14,628	591,500
1984	65,000	65,000	15,600	591,500
1985	65,000	65,000	15,600	591,500
1986	65,000	65,000	15,600	591,500
1987	65,000	65,000	15,600	591,500
1988	65,000	65,000	15,600	591,500
1989	65,000	65,000	15,600	591,500
1990	65,000	65,000	15,600	591,500
1991	65,000	65,000	15,600	591,500
1992	65,000	65,000	15,600	591,500
1993	65,000	65,000	15,600	591,500
1994	65,000	65,000	15,600	591,500
1995	65,000	65,000	15,600	591,500

GOVERNMENT OF GUATEMALA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 6,100
1974	2,000	900	183	7,200
1975	2,000	1,000	360	8,200
1976	2,000	1,100	360	9,100
1977	2,000	1,100	354	10,000
1978	2,000	1,000	348	11,000
1979	2,000	1,000	348	12,000
1980	2,000	800	348	13,200
1981	2,000	600	360	14,600
1982	2,000	200	384	16,400
1983	2,000	200	432	18,200
1984	2,000	2,000	480	18,200
1985	2,000	2,000	480	18,200
1986	2,000	2,000	480	18,200
1987	2,000	2,000	480	18,200
1988	2,000	2,000	480	18,200
1989	2,000	2,000	480	18,200
1990	2,000	2,000	480	18,200
1991	2,000	2,000	480	18,200
1992	2,000	2,000	480	18,200
1993	2,000	2,000	480	18,200
1994	2,000	2,000	480	18,200
1995	2,000	2,000	480	18,200

GOVERNMENT OF HONDURAS
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See Note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	-0-
1974	500	-0-	-0-	-0-
1975	500	50	12	950
1976	500	100	24	1,350
1977	500	150	36	1,700
1978	500	200	48	2,000
1979	500	250	60	2,250
1980	500	300	72	2,450
1981	500	350	96	2,600
1982	500	400	96	2,700
1983	500	450	108	2,750
1984	500	500	120	2,750
1985	500	500	120	2,750
1986	500	500	120	2,750
1987	500	500	120	2,750
1988	500	500	120	2,750
1989	500	500	120	2,750
1990	500	500	120	2,750
1991	500	500	120	2,750
1992	500	500	120	2,750
1993	500	500	120	2,750
1994	500	500	120	2,750
1995	500	500	120	2,750

GOVERNMENT OF INDIA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1975

FISCAL YEAR	FMS CREDITS	REPAYMENTS PRINCIPAL	REPAYMENTS INTEREST	BALANCE
1973 & Prior	$	$	$	$ 18,800
1974	-0-	900	108	17,900
1975	-0-	900	54	17,000*

* Utilization of $17.0 million of credit availability under review.

GOVERNMENT OF IRAN
FMS CREDIT PROJECTIONS
FY 1974 - FY 1978

FISCAL YEAR	FMS CREDITS	REPAYMENTS PRINCIPAL	REPAYMENTS INTEREST	BALANCE
1973 & Prior	$	$	$	$ 159,700
1974	-0-	36,100	4,791	123,600
1975	-0-	42,400	7,416	81,200
1976	-0-	39,000	4,872	42,200
1977	-0-	29,700	2,532	12,500
1978	-0-	12,500	750	-0-

GOVERNMENT OF JORDAN
FMS CREDIT PROJECTIONS
FY 1974 - FY 1983

FISCAL YEAR	FMS CREDITS	REPAYMENTS		BALANCE
		PRINCIPAL	INTEREST	
1973 & Prior	$	$	$	$ 56,800
1974	-0-	8,300	1,704	48,500
1975	-0-	8,100	2,910	40,400
1976	-0-	7,500	3,420	32,900
1977	-0-	7,000	1,974	25,900
1978	-0-	7,000	1,554	18,900
1979	-0-	7,000	1,134	11,900
1980	-0-	6,100	714	5,800
1981	-0-	3,500	348	2,300
1982	-0-	1,400	138	900
1983	-0-	900	45	-0-

GOVERNMENT OF KOREA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 56,200
1974	25,000	2,300	1,686	78,900
1975	25,000	9,000	3,834	94,900
1976	25,000	12,400	4,044	107,500
1977	25,000	14,900	4,200	117,600
1978	25,000	17,600	4.356	125,000
1979	25,000	20,100	4,500	129,900
1980	25,000	22,500	7,644	132,400
1981	25,000	23,100	4,794	134,300
1982	25,000	23,200	5,058	136,100
1983	25,000	23,600	5,466	137,500
1984	25,000	25,000	6,000	137,500
1985	25,000	25,000	6,000	137,500
1986	25,000	25,000	6,000	137,500
1987	25,000	25,000	6,000	137,500
1988	25,000	25,000	6,000	137,500
1989	25,000	25,000	6,000	137,500
1990	25,000	25,000	6,000	137,500
1991	25,000	25,000	6,000	137,500
1992	25,000	25,000	6,000	137,500
1993	25,000	25,000	6,000	137,500
1994	25,000	25,000	6,000	137,500
1995	25,000	25,000	6,000	137,500

GOVERNMENT OF LEBANON
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 20,000
1974	5,000	3,300	1,200	21,700
1975	5,000	2,900	1,122	23,800
1976	5,000	2,900	1,098	25,900
1977	5,000	3,000	1,074	27,900
1978	5,000	2,900	1,044	30,000
1979	5,000	3,000	1,020	32,000
1980	5,000	1,500	990	35,500
1981	5,000	1,500	1,050	39,000
1982	5,000	1,500	1,110	42,500
1983	5,000	1,500	1,170	46,000
1984	5,000	5,500	1,230	45,500
1985	5,000	5,500	1,200	45,500
1986	5,000	5,000	1,200	45,500
1987	5,000	5,000	1,200	45,500
1988	5,000	5,000	1,200	45,500
1989	5,000	5,000	1,200	45,500
1990	5,000	5,000	1,200	45,500
1991	5,000	5,000	1,200	45,500
1992	5,000	5,000	1,200	45,500
1993	5,000	5,000	1,200	45,500
1994	5,000	5,000	1,200	45,500
1995	5,000	5,000	1,200	45,500

GOVERNMENT OF LIBERIA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1983

FISCAL YEAR	FMS CREDITS	REPAYMENTS		BALANCE
		PRINCIPAL	INTEREST	
1973 & Prior	$	$	$	$ 2,000
1974	-0-	300	60	1,700
1975	-0-	200	102	1,500
1976	-0-	200	90	1,300
1977	-0-	200	78	1,100
1978	-0-	200	66	900
1979	-0-	200	54	700
1980	-0-	200	42	500
1981	-0-	200	30	300
1982	-0-	200	18	100
1983	-0-	100	6	-0-

GOVERNMENT OF MALAYSIA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 24,300
1974	19,000	5,400	729	37,900
1975	19,000	4,900	1,590	52,000
1976	19,000	6,800	1,866	64,200
1977	19,000	8,500	2,142	74,700
1978	19,000	10,300	2,430	83,400
1979	19,000	12,000	2,724	90,400
1980	19,000	13,800	3,030	95,600
1981	19,000	15,100	3,355	99,500
1982	19,000	15,900	3,690	102,600
1983	19,000	17,100	4,104	104,500
1984	19,000	19,000	4,560	104,500
1985	19,000	19,000	4,560	104,500
1986	19,000	19,000	4,560	104,500
1987	19,000	19,000	4,560	104,500
1988	19,000	19,000	4,560	104,500
1989	19,000	19,000	4,560	104,500
1990	19,000	19,000	4,560	104,500
1991	19,000	19,000	4,560	104,500
1992	19,000	19,000	4,560	104,500
1993	19,000	19,000	4,560	104,500
1994	19,000	19,000	4,560	104,500
1995	19,000	19,000	4,560	104,500

GOVERNMENT OF MALI
FMS CREDIT PROJECTIONS
FY 1974 - FY 1982

FISCAL YEAR	FMS CREDITS	REPAYMENTS		BALANCE
		PRINCIPAL	INTEREST	
1973 & Prior	$	$	$	$ 500
1974	-0-	100	15	400
1975	-0-	-0-	24	400
1976	-0-	100	24	300
1977	-0-	-0-	18	300
1978	-0-	100	18	200
1979	-0-	-0-	12	200
1980	-0-	100	12	100
1981	-0-	-0-	6	100
1982	-0-	100	6	-0-

GOVERNMENT OF MEXICO
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See Note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ -0-
1974	2,500	250	60	2,500
1975	2,500	250	60	4,750
1976	2,500	250	120	7,000
1977	2,500	250	180	9,250
1978	2,500	250	240	11,500
1979	2,500	250	300	13,750
1980	2,500	250	360	16,000
1981	2,500	250	420	18,250
1982	2,500	250	480	20,500
1983	2,500	250	540	22,750
1984	2,500	2,500	600	22,750
1985	2,500	2,500	600	22,750
1986	2,500	2,500	600	22,750
1987	2,500	2,500	600	22,750
1988	2,500	2,500	600	22,750
1989	2,500	2,500	600	22,750
1990	2,500	2,500	600	22,750
1991	2,500	2,500	600	22,750
1992	2,500	2,500	600	22,750
1993	2,500	2,500	600	22,750
1994	2,500	2,500	600	22,750
1995	2,500	2,500	600	22,750

GOVERNMENT OF MOROCCO
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 57,300
1974	12,000	10,000	1,719	59,300
1975	12,000	8,100	3,126	63,200
1976	12,000	9,100	3,000	66,100
1977	12,000	9,900	2,886	68,200
1978	12,000	11,200	2,796	69,000
1979	12,000	11,600	2,748	69,400
1980	12,000	11,800	2,760	69,600
1981	12,000	12,400	2,808	69,200
1982	12,000	12,900	2,898	68,300
1983	12,000	13,300	3,036	67,000
1984	12,000	13,000	2,940	66,000
1985	12,000	12,000	2,880	66,000
1986	12,000	12,000	2,880	66,000
1987	12,000	12,000	2,880	66,000
1988	12,000	12,000	2,880	66,000
1989	12,000	12,000	2,880	66,000
1990	12,000	12,000	2,880	66,000
1991	12,000	12,000	2,880	66,000
1992	12,000	12,000	2,880	66,000
1993	12,000	12,000	2,880	66,000
1994	12,000	12,000	2,880	66,000
1995	12,000	12,000	2,880	66,000

GOVERNMENT OF PAKISTAN
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS PRINCIPAL	REPAYMENTS INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 4,100
1974	-0-	2,500	123	
1975	-0-	600	112	
1976	-0-	500	60	
1977	-0-	500	30	

GOVERNMENT OF PERU
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ -0-
1974	20,000	-0-	-0-	20,000
1975	20,000	2,000	480	38,000
1976	20,000	2,000	960	56,000
1977	20,000	2,000	1,440	74,000
1978	20,000	2,000	1,920	92,000
1979	20,000	2,000	2,400	110,000
1980	20,000	2,000	2,880	128,000
1981	20,000	2,000	3,360	146,000
1982	20,000	2,000	3,840	164,000
1983	20,000	2,000	4,320	182,000
1984	20,000	20,000	4,800	182,000
1985	20,000	20,000	4,800	182,000
1986	20,000	20,000	4,800	182,000
1987	20,000	20,000	4,800	182,000
1988	20,000	20,000	4,800	182,000
1989	20,000	20,000	4,800	182,000
1990	20,000	20,000	4,800	182,000
1991	20,000	20,000	4,800	182,000
1992	20,000	20,000	4,800	182,000
1993	20,000	20,000	4,800	182,000
1994	20,000	20,000	4,800	182,000
1995	20,000	20,000	4,800	182,000

GOVERNMENT OF PHILIPPINES
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ -0-
1974	3,000	-0-	-0-	3,000
1975	3,000	300	72	5,700
1976	3,000	300	144	8,400
1977	3,000	300	216	11,100
1978	3,000	300	288	13,800
1979	3,000	300	360	16,500
1980	3,000	300	432	19,200
1981	3,000	300	504	21,900
1982	3,000	300	576	24,600
1983	3,000	300	648	27,300
1984	3,000	3,000	720	27,300
1985	3,000	3,000	720	27,300
1986	3,000	3,000	720	27,300
1987	3,000	3,000	720	27,300
1988	3,000	3,000	720	27,300
1989	3,000	3,000	720	27,300
1990	3,000	3,000	720	27,300
1991	3,000	3,000	720	27,300
1992	3,000	3,000	720	27,300
1993	3,000	3,000	720	27,300
1994	3,000	3,000	720	27,300
1995	3,000	3,000	720	27,300

GOVERNMENT OF SAUDI ARABIA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 56,100
1974	20,000	25,900	3,366	50,200
1975	20,000	16,700	2,292	53,500
1976	20,000	19,500	1,890	54,000
1977	20,000	6,000	1,440	68,000
1978	20,000	8,000	1,920	80,000
1979	20,000	10,000	2,400	90,000
1980	20,000	12,000	2,880	98,000
1981	20,000	14,000	3,360	104,000
1982	20,000	16,000	3,840	108,000
1983	20,000	18,000	4,320	110,000
1984	20,000	20,000	4,800	110,000
1985	20,000	20,000	4,800	110,000
1986	20,000	20,000	4,800	110,000
1987	20,000	20,000	4,800	110,000
1988	20,000	20,000	4,800	110,000
1989	20,000	20,000	4,800	110,000
1990	20,000	20,000	4,800	110,000
1991	20,000	20,000	4,800	110,000
1992	20,000	20,000	4,800	110,000
1993	20,000	20,000	4,800	110,000
1994	20,000	20,000	4,800	110,000
1995	20,000	20,000	4,800	110,000

GOVERNMENT OF SINGAPORE
FMS CREDIT PROJECTIONS
FY 1974 - FY 1975

FISCAL YEAR	FMS CREDITS	REPAYMENTS PRINCIPAL	REPAYMENTS INTEREST	BALANCE
1973 & Prior	$	$	$	$ 4,600
1974	-0-	2,800	138	1,800
1975	-0-	1,800	108	-0-

GOVERNMENT OF THAILAND
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ -0-
1974	15,000	-0-	-0-	15,000
1975	15,000	1,500	360	28,500
1976	15,000	1,500	720	42,000
1977	15,000	1,500	1,080	55,500
1978	15,000	1,500	1,440	69,000
1979	15,000	1,500	1,800	82,500
1980	15,000	1,500	2,160	96,000
1981	15,000	1,500	2,520	109,500
1982	15,000	1,500	2,880	123,000
1983	15,000	1,500	3,240	136,500
1984	15,000	15,000	3,600	136,500
1985	15,000	15,000	3,600	136,500
1986	15,000	15,000	3,600	136,500
1987	15,000	15,000	3,600	136,500
1988	15,000	15,000	3,600	136,500
1989	15,000	15,000	3,600	136,500
1990	15,000	15,000	3,600	136,500
1991	15,000	15,000	3,600	136,500
1992	15,000	15,000	3,600	136,500
1993	15,000	15,000	3,600	136,500
1994	15,000	15,000	3,600	136,500
1995	15,000	15,000	3,600	136,500

GOVERNMENT OF TUNISIA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 2,200
1974	2,500	300	66	4,400
1975	2,500	450	174	6,450
1976	2,500	700	222	8,250
1977	2,500	1,050	270	9,700
1978	2,500	1,200	312	11,000
1979	2,500	1,450	360	12,050
1980	2,500	1,700	408	12,850
1981	2,500	2,050	456	13,300
1982	2,500	2,200	498	13,600
1983	2,500	2,350	546	13,750
1984	2,500	2,500	600	13,750
1985	2,500	2,500	600	13,750
1986	2,500	2,500	600	13,750
1987	2,500	2,500	600	13,750
1988	2,500	2,500	600	13,750
1989	2,500	2,500	600	13,750
1990	2,500	2,500	600	13,750
1991	2,500	2,500	600	13,750
1992	2,500	2,500	600	13,750
1993	2,500	2,500	600	13,750
1994	2,500	2,500	600	13,750
1995	2,500	2,500	600	13,750

GOVERNMENT OF TURKEY
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 35,000
1974	75,000	1,600	1,050	108,400
1975	75,000	10,400	3,804	173,000
1976	75,000	19,100	5,430	228,900
1977	75,000	26,600	6,984	277,300
1978	75,000	34,100	8,538	318,200
1979	75,000	41,600	10,092	351,600
1980	75,000	49,100	11,646	377,500
1981	75,000	56,600	13,200	395,900
1982	75,000	64,100	14,754	406,800
1983	75,000	69,300	16,308	412,500
1984	75,000	75,000	18,000	412,500
1985	75,000	75,000	18,000	412,500
1986	75,000	75,000	18,000	412,500
1987	75,000	75,000	18,000	412,500
1988	75,000	75,000	18,000	412,500
1989	75,000	75,000	18,000	412,500
1990	75,000	75,000	18,000	412,500
1991	75,000	75,000	18,000	412,500
1992	75,000	75,000	18,000	412,500
1993	75,000	75,000	18,000	412,500
1994	75,000	75,000	18,000	412,500
1995	75,000	75,000	18,000	412,500

GOVERNMENT OF URUGUAY
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 5,600
1974	2,000	1,500	108	6,100
1975	2,000	1,000	294	7,100
1976	2,000	1,200	294	7,900
1977	2,000	1,300	294	8,600
1978	2,000	1,600	300	9,000
1979	2,000	1,700	300	9,300
1980	2,000	1,500	306	9,800
1981	2,000	1,400	336	10,400
1982	2,000	1,600	384	10,800
1983	2,000	1,800	432	11,000
1984	2,000	2,000	480	11,000
1985	2,000	2,000	480	11,000
1986	2,000	2,000	480	11,000
1987	2,000	2,000	480	11,000
1988	2,000	2,000	480	11,000
1989	2,000	2,000	480	11,000
1990	2,000	2,000	480	11,000
1991	2,000	2,000	480	11,000
1992	2,000	2,000	480	11,000
1993	2,000	2,000	480	11,000
1994	2,000	2,000	480	11,000
1995	2,000	2,000	480	11,000

GOVERNMENT OF VENEZUELA
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 39,500
1974	15,000	6,900	1,185	47,600
1975	15,000	9,800	2,316	52,800
1976	15,000	11,700	2,178	56,100
1977	15,000	9,300	2,016	61,800
1978	15,000	8,900	2,088	67,900
1979	15,000	10,200	2,274	72,700
1980	15,000	11,400	2,472	76,300
1981	15,000	12,300	2,688	79,000
1982	15,000	13,000	2,940	81,000
1983	15,000	13,500	3,240	82,500
1984	15,000	15,000	3,600	82,500
1985	15,000	15,000	3,600	82,500
1986	15,000	15,000	3,600	82,500
1987	15,000	15,000	3,600	82,500
1988	15,000	15,000	3,600	82,500
1989	15,000	15,000	3,600	82,500
1990	15,000	15,000	3,600	82,500
1991	15,000	15,000	3,600	82,500
1992	15,000	15,000	3,600	82,500
1993	15,000	15,000	3,600	82,500
1994	15,000	15,000	3,600	82,500
1995	15,000	15,000	3,600	82,500

GOVERNMENT OF ZAIRE
FMS CREDIT PROJECTIONS
FY 1974 - FY 1995
($ In Thousands)

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
BALANCE 6/30/73	$	$	$	$ 17,800
1974	3,500	2,300	534	19,000
1975	3,500	3,650	1,014	18,850
1976	3,500	4,000	900	18,350
1977	3,500	4,350	786	17,500
1978	3,500	4,800	672	16,200
1979	3,500	3,250	552	16,450
1980	3,500	2,300	546	17,650
1981	3,500	2,650	618	18,500
1982	3,500	3,000	690	19,000
1983	3,500	3,250	762	19,250
1984	3,500	3,500	840	19,250
1985	3,500	3,500	840	19,250
1986	3,500	3,500	840	19,250
1987	3,500	3,500	840	19,250
1988	3,500	3,500	840	19,250
1989	3,500	3,500	840	19,250
1990	3,500	3,500	840	19,250
1991	3,500	3,500	840	19,250
1992	3,500	3,500	840	19,250
1993	3,500	3,500	840	19,250
1994	3,500	3,500	840	19,250
1995	3,500	3,500	840	19,250

GOVERNMENT OF ISRAEL
FMS CREDIT PROJECTIONS
FY 1963 & PRIOR - FY 2000

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
1963 & Prior	$ 24,800	$ 4,100	$ 61	$ 20,700
1965	11,500	3,500	480	28,700
1966	80,800	5,400	2,060	104,100
1967	6,300	12,300	1,731	98,100
1968	25,000	12,400	3,139	110,700
1969	85,000	14,500	3,217	181,200
1970	30,000	14,000	5,237	197,200
1971	545,000	30,100	15,073	712,100
1972	300,000	45,200	17,318	966,900
1973	300,000	50,800	13,938	1,216,100
1974	300,000	88,200	37,000	1,427,900
1975	300,000	131,900	75,500	1,596,000
1976	300,000	167,900	77,000	1,728,100
1977	300,000	200,600	78,500	1,827,500
1978	300,000	232,000	79,000	1,895,500
1979	300,000	260,800	79,500	1,934,700
1980	300,000	290,000	81,000	1,944,700
1981	300,000	316,500	81,500	1,928,200
1982	300,000	327,000	83,000	1,901,200
1983	300,000	317,500	84,500	1,883,700
1984	300,000	332,500	89,500	1,851,200
1985	300,000	317,500	88,000	1,833,700
1986	-0-	317,500	86,500	1,516,200
1987	-0-	287,500	91,000	1,228,700
1988	-0-	257,500	74,000	971,200
1989	-0-	227,500	59,000	743,700
1990	-0-	197,500	45,000	546,200
1991	-0-	167,500	34,000	378,700
1992	-0-	137,500	24,000	241,200

GOVERNMENT OF ISRAEL
FMS CREDIT PROJECTIONS
FY 1963 & PRIOR - FY 2000

FISCAL YEAR	FMS CREDITS	REPAYMENTS (See note on Argentina Table) PRINCIPAL	INTEREST	BALANCE
1993	$ -0-	$ 107,500	$ 15,000	$ 133,700
1994	-0-	77,500	9,000	56,200
1995	-0-	47,500	4,000	8,700
1996	-0-	8,700	1,000	-0-
1997 thru 2000	-0-	-0-	-0-	-0-

Mr. LONG. Please provide for the record the amounts of military cash sales (government to government) for which payments are more than 90 days late—by country.

Secretary SCHLESINGER. I will provide the information for the record. To put the information in perspective, I should point out that the United States has collected somewhat over $12 billion of payments for military cash sales since the inception of the program. Also, we do not view late payments for cash sales as arrearages, in the sense that we define the term for deliquencies for credit sales, for two main reasons: First, cash sales do not involve a predetermined arrangement as to the specific date when a payment is due. Instead, we submit thousands of individual billings each year for funds as they become due in order to meet progress payments or payments for materiel shipments, and the magnitude of this system results in a certain amount of unavoidable confusion. Second, in most instances, countries will have made payments for certain arrangements in advance of due dates, while they are being carried on our books as overdue against certain other arrangements.

To give an extreme example of this latter point, there is one country which invaribly appears on our listings as being overdue by amounts averaging several hundreds of thousands of dollars. This figure represents the value of overdue billings against specific cash sales transactions.

On the other hand, the value of undisbursed funds in the trust account for this country averages over $50 million. This figure represents the amount of funds which the country has paid, for specific transactions other than those included in the overdue billing listing, in advance of the time that the funds were due for disbursement.

[The information follows:]

As of June 30, 1973

Country:	*Amount (Dollars in thousands)*
Argentina	843.7
Australia	175.1
Austria	16.7
Belgium	13.4
Brazil	4.1
Burma	.1
Canada	691.0
Chile	291.8
China	159.8
Colombia	67.9
Costa Rica	1.2
Denmark	31.2
Dominican Republic	183.3
Ecuador	397.5
El Salvador	1.4
Ethiopia	.4
France	68.7
Ghana	51.3
Greece	5,117.0
Iran	823.9
Ireland	13.6
Israel	403.7
Italy	5,443.8
Japan	682.1
Jordan	3,493.9
Korea	38.0
Lebanon	45.8
Liberia	1.0
Libya	4.4

Country—Continued	*Amount (Dollars in thousands)*
Luxembourg	1.4
Malaysia	5.6
Mexico	18.7
NAMFI	270.4
NAMSA	105.3
Netherlands	137.6
NHPLO	4.0
Nicaragua	66.3
New Zealand	43.8
Norway	43.5
Peru	216.0
Philippines	39.8
Portugal	9.0
Saudi Arabia	10.7
SHAPE	122.7
Singapore	41.5
Spain	52.4
Sweden	6.6
Switzerland	40.8
Thailand	127.6
Turkey	658.7
United Kingdom	439.7
Uruguay	151.9
Venezuela	1,078.1
West Pakistan	489.2
Yugoslavia	30.5
Total	23,277.6

Mr. LONG. Please provide for the record the total payments for military cash sales (government to government) outstanding at the present time.

Secretary SCHLESINGER. There have been about $18.1 billion of military cash sales arrangements made, and the United States has received $12.3 billion of payments as of June 30, 1973. Outstanding amounts which will be due subsequent to June 30, 1973, pertaining to existing sales arrangements, therefore approximate $5.8 billion.

Mr. PASSMAN. Thank you, Mr. Long.

Mr. Miller?

JAPANESE ASSISTANCE

Mr. MILLER. Mr. Secretary, you have stated in your testimony that Japan has paid for all her military forces for many years.

Secretary SCHLESINGER. Yes, sir.

Mr. MILLER. At the present time we have gone so far that Japan owns a part of our national debt—if I am not mistaken, a little over $3 billion. In that part of the world we are helping many countries. Do you find that Japan is also helping those same countries?

Secretary SCHLESINGER. The Japanese are giving some economic assistance to some of the countries that we are helping. I think they are giving aid to Vietnam and some aid to Indonesia. I am not aware of the extent of their assistance program.

Mr. MILLER. Is it possible for us to find out what amount, whether it be the percentage, or the totals that would be given?

Secretary SCHLESINGER. We will try and find that figure and supply it for the record.

Mr. MILLER. If we could have the military assistance and also the total economic assistance for the record, I would appreciate that, Mr. Chairman.

[The information follows:]

JAPANESE FOREIGN ASSISTANCE

As a matter of policy the Government of Japan does not participate in military assistance programs. The Japanese have made steady progress, through both multilateral and bilateral channels, in their foreign economic assistance programs to the point where they are second only to the United States in terms of total resource flows to the less developed countries. Total Japanese foreign assistance is now close to the U.N. goal of 1 percent of GNP. It was announced on July 30, 1973, that the Government of Japan will give $50 million in aid to the Republic of Vietnam this calendar year ($20 million humanitarian grants and $30 million primarily commodity loans). Project aid is also, in effect, for Thailand, Burma, and Indonesia. The Japanese Government is committed to a policy of improving its performance, increasing the volume of aid in general, and easing its terms and is specifically committed to a large-scale contribution to the reconstruction effort in Indochina.

Japanese development assistance began in the 1950's in the form of reparation grants and export credits. In the 1960's, development loans and technical assistance became increasingly important, and Japan began to finance infrastructure projects in certain countries in addition to extending commodity aid. After steady progress throughout the 1960's, Japanese official development assistance achieved an increase of over 70 percent between 1968 and 1972 from $356 million in 1968 to $611 million in 1972, making Japan the fourth largest DAC donor. Japan's total resource flows to less developed countries were 0.93 percent of GNP in 1972 as compared to 0.64 percent for the United States. In ODA, however the United States at 0.29 percent of GNP in 1972 outperformed the Japanese 0.21 percent.

PERSIAN GULF SITUATION

Mr. MILLER. I am very much concerned about what we spoke of earlier; that is, the petroleum from the Persian Gulf area and how our military assistance program may continue to aid us in this regard. As we know, the type of country and economy that we have today operates on petroleum and fossil fuels. Today we have a problem.

I read in your testimony—I don't believe it listed the exact amount—some one-half would be allocated to Israel.

Secretary SCHLESINGER. The $760 million is nearly one-half of the new obligational authority requested for foreign military sales.

Mr. MILLER. Something in excess of one-half. Now we have the Arab——

Secretary SCHLESINGER. Foreign military sales credits and guarantees.

Mr. MILLER. Credit, yes. But we do have the problem of the Arab countries and Israel at the present time. In that area, of course, we have much of the petroleum. Do you feel that we are upsetting the balance and could have our petroleum cut off because of some of the military assistance that may be offered to some of the countries in that area?

Secretary SCHLESINGER. I think we must recognize that the politics of that area are rather awkward from our standpoint. Undoubtedly the tension between Israel and the Arab States is not conducive to absolute security of the flow of oil to the Western World.

Mr. PASSMAN. Would my friend yield just briefly?

Mr. MILLER. Yes. I had more to add.

Mr. PASSMAN. I want you to continue.

ACHIEVING AID OBJECTIVES

Mr. MILLER. We are not criticizing you or military assistance in any particular country, but the one thing we are interested in is the flow of oil toward our shores. I am aware of the volume of oil that is coming now from that area and I know we will be in trouble if we do not continue to have that oil.

I would hate to see us have the military assistance upset our economy. I have a question that I am not sure just what it means, but perhaps, Mr. Secretary, and Admiral Moorer, you can straighten it out for me.

In your testimony that you have presented here for us today there is one place on page 10, Admiral Moorer, you state:

> Finally, fostering favorable attitudes toward the United States, its policy of encouraging recipients to pursue military objectives compatible with U.S. military strategy.

There you are speaking of the military assistance program, as I understand it.

> Fostering attitudes and encouraging those countries to pursue military objectives compatible with U.S. military strategy.

Then I see in the Secretary's statement on page 7, the statement that it cannot be directed to bind the support of our friends and allies for U.S. advice and leadership even on security issues. They seem to be diametrically opposite and I am wondering what——

Admiral MOORER. No, sir, I do not agree they are opposite. I agree with the Secretary. You cannot guarantee it by giving aid. On the other hand, the fact that you do give aid, I believe, facilitates what I referred to earlier as cooperation insofar as encouraging recipients to pursue military objectives compatible with U.S. military strategy. This spills over into what we call the total force concept. This is a concept which considers the military resources of our allies to supplement the capabilities of the United States in meeting certain common strategic requirements such as maintaining freedom of the seas, meeting treaty commitments, and things of that kind.

That is what I was trying to say. This is not in conflict with what the Secretary says, in my view. It does foster favorable attitudes. It does not buy or guarantee the attitudes. I think it is a question of degree.

Secretary SCHLESINGER. What one gets is a more sympathetic audience. As the chairman pointed out, a very substantial amount of equipment has gone to India. That did not guarantee the long-term relationship between India and the United States that might have been anticipated. The Soviets invested a vast amount in Egypt and Indonesia and they thought they might be buying support there. There is nothing that can guarantee it.

What it does bring is a feeling of comity between these countries and particularly between ourselves and Latin America, which is the point Admiral Moorer was addressing himself to.

Mr. MILLER. I read it a little differently but I can understand the possibility of this sort of thing happening and leaving the impression with us of being diametrically opposite.

Admiral MOORER. I am sorry, sir. It may have been a poor choice of words on my part.

COMMUNIST BLOC ASSISTANCE

Mr. MILLER. I just wanted to clarify it if you had other reasons. That was the purpose of the question. I had one other question. As I recall, Mr. Secretary, earlier in the day you were talking about the Communist bloc countries supporting three major countries, or at least providing the majority of their aid. Am I correct that you said Turkey?

Secretary SCHLESINGER. No, sir. I mentioned primarily Egypt, India, and North Vietnam in reference to the total volume. Syria and Iraq were mentioned as secondary. Turkey has received no assistance that I know of from the Soviets.

Admiral MOORER. I might add that people overlook the fiasco the Soviets had in Indonesia, where they supplied the TU-16 bombers, guided missiles, and cruisers, and the whole system collapsed.

Secretary SCHLESINGER. Or one might add China. There was a very substantial contribution.

COMPETING WITH COMMUNIST ASSISTANCE

Mr. MILLER. What I was really leading up to is the fact that we are aiding some countries and apparently Russia would also be offering military assistance to those same countries. We had some testimony

on that earlier. Should we be attempting to outbuy them, if that is the proper word, or offer more assistance? This came up earlier as I recall where a number of nations were receiving military aid both from our country and from the Soviets.

Secretary SCHLESINGER. I think in the case of any nation that our military assistance program should be very carefully tailored to specific objectives. If I may go off the record——

Mr. PASSMAN. Yes, Mr. Secretary.

[Discussion off the record.]

Mr. MILLER. I can see each year it is stepping up where we would be competing with another country and the Government of Chile would be in a position to go to the highest bidder.

Secretary SCHLESINGER. I think your question is right on the mark, Mr. Miller. I think the circumstance you envisage is one in which we should not become engaged. What we are talking about in this specific case is a very limited aid program ———. But we and the Russians, I think, ought not to get into this game of trying to outbid one another ———. I think the chairman hinted earlier that something of this sort may have occurred in the case of India. In that case, we backed out.

Admiral MOORER. I think the important thing here is the attitude of the military in Chile ———. They are constitutionalists. As the Secretary says, they remain apart from the political activity. For instance, they have expressed a desire to buy the F–5 aircraft. They have some equipment we have supplied by grant or sale in years gone by. They still require spare parts for the equipment, if they are going to continue to operate it. The Soviet aid has been offered and administered through Allende. We have the Soviet aid coming into the civilian political arena, ———. But I agree with you, it has to be played like an organ.

Mr. MILLER. It does, indeed. It is a tight wire thing. I can see our military assistance going up and up until there would be no limit.

Admiral MOORER. This is cash and credit. It is not grant aid.

FUNDING SPARE PARTS PURCHASES

Mr. MILLER. You brought up a point about the spare parts. We do have many planes around the world in a number of nations. I understand that we do stock spare parts for those planes somewhere in the AF in order to keep most of those planes in operation. Is that a part of the military assistance budget we are talking about today?

Admiral PEET. In some countries, it is.

Admiral MOORER. They have to buy them.

Admiral PEET. As a general rule, 10 percent of the acquisition value of the airplane is spent in spare parts support each year.

Mr. MILLER. Apparently our Air Force would purchase those spare parts, inventory them, and have them available to go. I have been told by the Air Force that they can furnish most of the spare parts within hours. I would assume we are saying that it would be necessary for the Air Force to maintain an inventory, because I can hardly see the private companies maintaining that inventory. It would be terribly expensive for them to attempt to do this.

Admiral MOORER. Yes, sir.

In some cases the Air Force is operating the same kind of aircraft. This whole thing is based on planning factors associated with the number of hours that each aircraft is operational, wherever it happens to be, and is going to fly. They know about how.

Spare parts will be applied to keep these aircraft operating at that level. It is on a cash and credit basis that these countries that have received the aircraft can purchase the spares that they consume.

MAINTAINING SPARE PARTS INVENTORY

Mr. MILLER. We are still not getting back into this large inventory that is apparently somewhere maintained by our Air Force. We are not talking about a few hours; we are talking about a number of billions of dollars that would be necessary in order to maintain the amount and proper kind of engines.

Admiral PEET. One of the most important reasons foreign countries buy from us is that we have the particular item in our inventory and are able to provide the logistics support for it.

In a very few exceptional cases, we maintain an inventory of equipment that we don't have in our own services. However, we do not do so when it is no longer economically profitable or advisable.

Mr. SHRIVER. Does that run into billions of dollars?

Admiral PEET. Not in this category. The billions of dollars would be for equipment we have in our inventories—the F–4's and the A–7's and items of that sort. Other countries are able to take advantage of the fact that we have a significant spare parts logistical base for those aircraft, and they buy.

Mr. MILLER. Let us assume that we would sell F–4's to a country, and 10 percent would be allocated for spare parts, and they would have the F–4's for many, many years. When they are sold to that country, doesn't the contract state that we would have spare parts available for x amount of years in the future?

Secretary SCHLESINGER. No.

Mr. MILLER. Then it would be necessary for the military to inventory those parts?

Secretary SCHLESINGER. No, sir, there are no arrangements of that sort.

What may be the case, for example, is that if there is an ally that is using U.S. aircraft, and if we believe that that ally has too thin an inventory and we anticipate circumstances in which we would be involved with them, then we may have inventories of certain types of hardware that we would be prepared to rush in if war came. But these are not the normal circumstances. These would be extraordinary circumstances.

Admiral PEET. In some cases, we suggest to them that they buy at least 2 years of spare parts support with their initial purchases.

Mr. MILLER. I cannot visualize them not wanting this in the contract.

In other words, if you purchased from the United States a military aircraft that we are speaking of, you would want it stipulated in the contract that you would be able to keep that aircraft in operation more than 2 years. So I am wondering whether a part of the funds that we are talking about in the program today would be that type of support of inventory that may be maintained in this country to be able

to send out rather hurriedly around the world all the necessary parts that could in effect amount to billions of dollars.

Secretary SCHLESINGER. I don't think it is a substantial sum in any event, Mr. Miller. But we would have to go through and see to what extent some of the inventories maintained by the U.S. military establishment may be indirectly related to the support of the forces of foreign countries.

I am not sure that there is a significant sum here but we should check in order to get an appropriate response to your question.

[The information follows:]

MAINTAINING SPARE PARTS INVENTORY

Spare parts in the amount of approximately $272 million are currently carried in the inventories of our military departments in anticipation of foreign country requirements. For countries purchasing their requirements from us, these inventories (in the amount of about $248 million) have been bought and paid for in advance by those countries. In the case of grant aid recipients, the inventories (in the amount of about $24 million) have been purchased with departmental funds. No MAP funds are being requested or used to purchase spare parts in anticipation of foreign country requirements.

Mr. MILLER. I would appreciate it very much. Thank you very much. Thank you, Mr. Chairman.

INDONESIAN PROSPECTS OF PROSPERITY

Mr. PASSMAN. Thank you, Mr. Miller. I was critical of Indonesia's aid, having some knowledge of the tremendous amount of military assistance being given by Russia to Indonesia. They have a new President and evidently he is energetic and possesses great integrity and they are going great guns out there. The Ambassador just happened to come to my office this morning and we were talking about the potential in Indonesia. I was surprised to learn that their No. 1 export is fossil fuel, and it is growing all the time. Their No. 1 export for earnings is crude oil.

Admiral MOORER. Yes, sir.

Mr. PASSMAN. They just discovered recently an island that is almost sinking with nickel. It is the largest nickel deposit that the world has ever known. Another island is almost solid copper. The ore content is 30 percent copper as it comes out of the ground. So I guess the potential in Indonesia conceivably is as great as the United States. It is unbelievable what they may have there if they have a stable Government in another 25 years.

Mr. MILLER. At that point could I add one thing?

Mr. PASSMAN. Certainly.

FMS REIMBURSEMENT BY TRADE

Mr. MILLER. Mr. Secretary, has it been considered that we could make a trade, instead of actual cash sales, whereby we would send, as an example, aircraft or ships, but in return we could collect with fossil fuel or the minerals and stockpile in this country the minerals and fossil fuels and the natural resources that we seem to be depleting so fast?

Secretary SCHLESINGER. To my knowledge that has never been explored, Mr. Miller.

Mr. FORMAN. We used to have the authority to do that, sir, but Congress repealed that authority in 1967.

Admiral MOORER. It is illegal.

Mr. MILLER. Then we had better give it consideration and put it back on the books.

Our economy operates in such a way that this highly industrial nation is running on oil and we are using up our resources so fast so that we better look to our stockpiling.

Right now as we are sending the military hardware, we better have something back in return that will be usable in the future.

Mr. PASSMAN. I hope we do go back to it.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Roush.

Mr. ROUSH. Thank you, Mr. Chairman.

OBJECTION TO MILITARY ASSISTANCE

Mr. Secretary, this is the first year I have had the pleasure of serving on this subcommittee, and I have grown to appreciate my chairman very much. As time goes on, I see such a marked difference in our philosophy I wouldn't want the record to in any way indicate that I share all of his philosophies, although I respect them, because he is indeed a great chairman. I am not a "wild-eyed liberal" who is a newcomer to the Congress. I have been here quite a while. Over that period of time my feelings and convictions have been tempered, I think, a great deal. Perhaps the program under the purview of this subcommittee which gives me the most difficulty is the military assistance program.

I wonder if perhaps we have not come to the time in history where this country should be promoting something other than military force as a means of solving our problems. I find it very, very difficult to understand why—nor do I find a satisfactory explanation in your testimony—we should be giving military assistance to many of the countries to whom we are giving military assistance.

I do not understand why we should give military assistance to Ethiopia and Tunisia in Africa. I do not see that military assistance contributes to the safety and well-being of this country, nor insures to our benefit.

I find it just unacceptable, nor can I find a substantial rationale, for military assistance to the countries of South America.

Secretary SCHLESINGER. Mr. Roush, let me take some moments to try to answer your question. I think there will always be differences of opinion with regard to specific countries which are recipients. I think that is healthy as long as those differences of opinion remain. Our case where there is unanimity is when there are nations clearly under attack and we feel obligated to support them. In other cases there are nations that are clearly unfriendly and hostile and nobody argues about providing support. Then there will be a collection of nations in between in which one person will say this country deserves it, and another person will say that it does not. Now may I go off the record for a minute?

[Discussion off the record.]

POSITIVE EFFECTS OF AID TO LATIN AMERICA

Secretary SCHLESINGER. In the case of Latin America, I think the reasons for this have been mentioned earlier. We give very little grant aid in Latin America.

Admiral PEET. Less than $10 million in materiel grant aid.

Secretary SCHLESINGER. It is a trivial sum in Latin America. Mostly what we are talking about in Latin America is credit for sales. One can well argue that the United States is an economic beneficiary of such provision of assistance. I think that Mr. Conte and Mr. Long have raised questions in the past whether or not this is of economic benefit to the United States, which I think both Mr. Conte and Mr. Long would agree with, although I should allow them to speak for themselves. There may be political drawbacks to providing assistance. It is sometimes argued that if other nations want to be suppliers of hardware, the United States has a political obligation not to provide that hardware. The argument on the other side, which we endorse, is that hardware will be provided in any event.

The United States benefits first in terms of the economic gains it obtains in the balance of payments; and, second, in terms of maintaining influence, ———.

Mr. ROUSH. May I interrupt for a moment?

In your testimony you say U.S. economic determinations do not serve as a basis for determining whether or not to extend credit military sales. You go on to justify such a reason. You just stated that this was a primary reason.

INFLUENCING LATIN AMERICAN INVESTMENTS

Secretary SCHLESINGER. The word you used there was "determine" and I think that was one of the reasons. But the principal reason, it seems to me, is the whole pattern of association between ourselves and Latin America. There are governments in Latin America, whether rightly or wrongly, whether they misperceive a threat or whether they are doing certain things for prestige purposes, that are determined to have enough military hardware.

Mr. ROUSH. Isn't part of our obligation to determine whether or not it is right or wrong for them to receive military assistance from the United States? We should not depend merely on their perception on such matters, should me, Mr. Secretary?

Secretary SCHLESINGER. I don't think it is a question in this case of military assistance, in the sense that you are using the term, because there is a return of the resources. You used the phrase "right or wrong"——

Mr. ROUSH. You used it, Mr. Secretary.

Secretary SCHLESINGER. No; I think you used it.

Mr. ROUSH. You used it before I did. That was my frame of reference.

Secretary SCHLESINGER. I may have said it earlier. I think along with the current view that the United States has no obligation to be the world's policeman, that we should be fairly restrained in deciding that we should be the world's moralist, also. We ought to be very reticent about deciding what is right and wrong for other countries.

Whether it is wise or unwise for them to invest their resources in this way is something on which we have spoken out.

I think that the U.S. Government makes it clear in many of these cases that we do not think that it is a wise investment of their resources. but that these are sovereign governments and they decide on their own policies. In many cases everything indicates that it would be better from the standpoint of their public benefit to invest their resources in education and flood control.

If there is a decision by the government to purchase military hardware, then it is, in our judgment, preferable that the United States be the supplier. But we are not urging them—and just this very morning Admiral Moorer will confirm that I stated very clearly to the people in the Department that we ought not to be out there urging other nations to buy arms that they could ill afford.

Mr. ROUSH. I am glad to hear you say that.

Mr. LONG. Will the gentleman yield?

MAAG'S AS SALESMEN

Mr. ROUSH. Yes, I yield.

Mr. LONG. I think you believe that and I am sure that that may be the top policy. As a practical matter, I know of instances where our military missions are basically salesmen for American weapons and are persuading countries to expand their military. I can name a country where I was told that by members of the military mission several years ago, and they felt very contrite and unhappy about it.

Secretary SCHLESINGER. I think that is correct. I think Secretary McNamara, as you will recall, decided that it would be wise in terms of American policy to attempt to balance what was called the DOD balance of payments by very forthrightly pushing sales and huckstering other countries to acquire military hardware. I myself regard that as an inappropriate policy.

Mr. LONG. I am glad you do.

Secretary SCHLESINGER. And we ought not to do that.

NEED TO COLLECT SALES CREDITS

Mr. LONG. If I can pursue this subject just a bit longer, you said something about the balance of payments. You are an economist and I might say you are a very well known economist—before I got into this business and stopped keeping track of economists. You came from a very distinguished economics department at the University of Virginia. I am sure you must realize that you don't improve your balance of payments when you sell products for IOU's.

Secretary SCHLESINGER. You don't improve it. You don't improve it as much immediately as if you have cash sales.

Mr. LONG. Our problem is to get some cash. We have plenty of IOU's all over the world. We have sent out $80 or $100 billion. We have IOU's and we have money all over the place.

Our problem is to get cash now to help with our balance of payments. This we do not accomplish by selling weapons on long term credits.

Secretary SCHLESINGER. I think that is right.

What we should be attempting to do, Mr. Long, is to move from grants to credit when we can, to move from credit to cash when we can, to move from longer term to shorter term credit when we can, because of the reasons that you specify.

I think the whole tenor of this program, particularly on the grant side, has been in that direction.

EFFECT OF MAP ON BALANCE OF PAYMENTS

Mr. ROUSH. My next question was, what effect does or will the military assistance program have in fiscal year 1974 if we project it on our balance-of-payments situation?

Secretary SCHLESINGER. I think we can give you the effect of this. Of course, on the balance of payments taken by itself, it is beneficial.

The benefits in this narrow economic context—and I think we agree that the narrow economic context was not the determinant—stretch over a number of years. This year the U.S. balance of payments is improved because of sales that we made in the sixties, or in 1972. You must view the whole pattern. On balance, of course, the provision of this equipment, through sales, whether cash or credit, is going to be beneficial to the balance of payments.

Mr. ROUSH. I yield to the gentleman.

UNDERSTANDING THE PROGRAM FORMAT

Mr. PASSMAN. You know our philosophy is not as far apart as you think. I lack an awful lot of being in favor of a lot of military assistance. I realize we would drive them in all probability to the European market. I am talking about Latin America. Every year the justification format changes and you have to work overtime to try to put it together. What do we see on the surface? The Department moved training out of grant aid. If you look at the justifications you think that the grant aid has dropped from $16,400,000 to $10 million. But that is not so. If you put the same thing in the 1974 request then it is up to $20,665,000. It is way above your training for fiscal 1973. Isn't that correct?

Admiral PEET. Yes; we did separate training this year.

Mr. PASSMAN. You separated it. You usually carry your training in one package?

Admiral PEET. Yes, sir.

Mr. PASSMAN. Your book shows there has been a substantial reduction whereas in reality there has been a substantial increase. You move from $16 million to $20,665,000. These are things that make our task rather difficult. You can defend military credit sales if we were not filling the till from the back door, but you move into the economic sector of your aid program for Latin America and you find this year it is almost double the request of last year.

Much of it is moved over into the multilateral organizations. We find this year there is $1,234,380,000 for multilateral alone for Latin America before you get into bilateral. If you are going to permit them to take out of their resources dollars to pay cash or terms for military equipment and we are going to triple the amount of economic aid, then what do you wind up with? You wind up with a can of worms that it is almost impossible for any of us to understand or digest. I know that

I have stated these statistics correctly for the record and we will do a lot of discussing of this thing before we ever mark this bill up, I hope. I thank the gentleman for yielding.

EXPLANATION OF SECTION 514

Mr. ROUSH. Mr. Chairman, my next question I wanted to direct to Admiral Moorer, with regard to section 514: In your testimony you say, "* * * which requires a 10-percent payment to the United States for grant aid and excess defense articles." I am not familiar with the statute, but I want to be clear on it. Do I understand that even for grant aid they must pay us 10 percent?

Admiral PEET. That is correct.

Admiral MOORER. That is right, with a few limited exceptions.

Admiral PEET. In the House version of the fiscal year 1974 legislation, it is deleted; but it is a requirement for 1973.

Mr. ROUSH. When we refer to grant aid we are referring to military grant aid.

Admiral MOORER. The military assistance program.

Mr. ROUSH. In other words, when we list these various military assistance programs, and we have so much in grant aid to Cambodia they have to provide a payment of 10 percent of so many million.

Admiral PEET. There is a waiver for Cambodia. Where we have base rights, and where we are involved in action such as Cambodia, the requirement is waived.

Mr. ROUSH. When you refer to excess defense articles, are you referring to credit sales?

Admiral PEET. No, sir.

Secretary SCHLESINGER. That is military equipment that has been declared excess to U.S. mobilization reserves and we can provide that to other countries.

Mr. ROUSH. Does the statute also include credit sales? I gathered from your testimony that it did. It does not?

Mr. FORMAN. This 10 percent you are talking about relates solely to the grant program which consists of the following three elements: The grants of nonexcess defense articles, grants of excess defense articles, and grants of training.

Mr. ROUSH. Thank you very much.

I do not see anything wrong with it. I don't see how that is dictating how they should run their national economy, and I don't see how in the world it could damage a friendly relationship when we are doing so very, very much for them. I just don't see how that could be too much of a deterrent, and that if they consider it a deterrent, it seems to me it is just an indication that they want a little more than we are giving them. I don't feel unhappy about such a provision in the law.

Secretary SCHLESINGER. I understand your point, Mr. Roush. As I indicated earlier, I think this is particularly mettlesome in the case of education and training. If we invite a Latin American officer to come to Fort Leavenworth for the year as part of the education and training, it is a point of some dispute, particularly within Latin America, that we in effect require them to put up 10 percent of the money for a guest. It seems to vitiate our hospitality. I think there is the area where there is the greatest criticism.

Mr. ROUSH. We consider them a guest, I agree. I don't think we should be considering them a guest. I would place them in an entirely different category than I would a guest.

Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Coughlin.

CONFUSION OVER PROGRAM PRESENTATION

Mr. COUGHLIN. Mr. Chairman. I will be brief. I gather we have a vote coming on. I must say some of the presentations confused me somewhat because we have figures for Cambodia but not for Laos.

Secretary SCHLESINGER. Laos and South Vietnam are part of the MASF account in the Defense Department budget that does not go through this budget.

Mr. COUGHLIN. There is a justification for $311 million for Laos Is that the total aid for Laos?

Secretary SCHLESINGER. The total for NOA for MASF is $1.2 billion. That is not in the MAP.

Mr. COUGHLIN. Cambodia is.

Secretary SCHLESINGER. That is right. Cambodia is in the Security Assistance Budget.

Mr. COUGHLIN. Why are these two countries placed in different assistance categories?

Secretary SCHLESINGER. That was a decision by Congress some years ago.

The initial authorization was for Vietnam, in which we were then fighting. Laos and Thailand were added later to the MASF account along with South Vietnam. A year ago Thailand was removed. Laos and Vietnam for a year at least will continue to be part of the MASF account. Where it will be a year from now is anybody's guess. But Vietnam and Laos are not included here in the MAP request.

RETURNING MASF TO MAP

Mr. SHRIVER. I believe there is something in the new Foreign Assistance Act to bring it back in.

Secretary SCHLESINGER. When it would be returned has been the subject of some debate. Ultimately it is quite reasonable to return to the MAP account.

Mr. PASSMAN. Incidentally the bill the Foreign Affairs Committee is reporting out this week will take care of that. I think both Vietnam and Laos will be returned to this committee.

Admiral PEET. I think MASF funding might be extended for 1 more year.

REQUEST TO DECLASSIFY SALES FIGURES

Mr. COUGHLIN. The final question I have is: In determining the amount of American military hardware that is flowing to various parts of the world, the portion that is the result of direct cash sales is really quite significant. If you look at Saudi Arabia we show a $20 million foreign assistance figure. But we have a ——— cash sale. May I ask if there is any reason why the total amount of these cash sales and commercial sales cannot be declassified so that this whole thing can be put in some perspective?

Secretary SCHLESINGER. I believe some of those figures are declassified.

Mr. COUGHLIN. They show them all as classified.

Secretary SCHLESINGER. I don't know if any are classified.

Admiral PEET. They are only classified when they pertain to cash sales to specific countries.

Mr. COUGHLIN. Is there a way to declassify figures for specific countries so you know how much American paraphernalia is going to a particular country?

Admiral PEET. They are estimates, and we are reluctant to reveal those estimates as to what other countries are going to spend next year. The Saudis and Iranians are particularly sensitive with respect to what they buy. They don't want us telling the world they are going to buy so much next year.

Secretary SCHLESINGER. We can tell you after the fact when it is no longer a guess.

Mr. COUGHLIN. How about the 1973 figures, can they be declassified?

Secretary SCHLESINGER. I see no reason not to.

Admiral PEET. I believe they have been.

Mr. COUGHLIN. Are they declassified in fact?

Secretary SCHLESINGER. I believe so.

Admiral PEET. I think the actual figures are.

It is the State Department's responsibility to classify.

U.S. GOVERNMENT APPROVES ALL SALES

Mr. COUGHLIN. The final thing I want to ask: In terms of cash sales, are they licensed cash sales? In other words, they have to be bought through the American military; do they not? These are not cash sales on the civilian market.

Secretary SCHLESINGER. They don't have to be bought through the American military. Any sale of military hardware does require approval of the U.S. Government. But something on the order of three-fourths will be bought through the Department of Defense and one-fourth will be bought outside the DOD.

Mr. COUGHLIN. But with the approval of the U.S. Government.

Secretary SCHLESINGER. Yes.

Mr. COUGHLIN. Thank you, Mr. Chairman.

UPDATING PROGRAM PURCHASING POWER

Mr. PASSMAN. Mr. Secretary, before we drop the curtain, as a former member of the Office of Management and Budget, you can imagine some of the problems we are confronted with. You take these multilateral organizations that have pyramided their accounts. They have untold billions that are undisbursed. Now they come back and say:

> The money you previously gave to us won't buy what it would buy when you gave it to us. We want you to make it retroactive so that the billions of dollars you gave us previously will buy what we want this year.

This year they are requesting over $2 billion for this purpose.

So you know we do have some things to worry about. Thank you an awful lot.

I guess that concludes this hearing.

Cuban Refugee Program

STATEMENT OF HON. DOMINICK V. DANIELS OF NEW JERSEY

Before adjourning, I would like to include a statement, with attachments, in the record from Congressman Daniels concerning the Cuban refugee program.

[The statement follows:]

Congress of the United States,
House of Representatives,
Washington, D.C., July 30, 1973.

Hon. Otto E. Passman,
Chairman, Subcommittee on Foreign Operations, House Committee on Appropriations, Washington, D.C.

Dear Mr. Chairman: I am submitting to you and your subcommittee material in support of my request for Cuban refugee program assistance to three communities in my present and former congressional district. Enclosed is the testimony of the three mayors of the Hudson County, N.J. communities—West New York, Weehawken, Union City, N.J.—before the General Subcommittee on Education of the House Education and Labor Committee. The mayors' testimony concerned primarily the extraordinary burden on citizens of the communities to pay for the education expenses incurred as a result of the influx of Cuban refugees since passage of the Migration and Refugee Assistance Act of 1965.

The mayors' testimony sets out statistically the financial, logistical, and educational burden on the communities. The health and welfare problems faced are similar and I understand that your committee has before it data submitted by the HEW Social and Rehabilitation Service concerning those conditions. But none of these statistical data can possibly reflect the real impact that the sudden influx of refugees has had on the communities.

The three communities (hereinafter referred to as North Hudson) are made up of a stable population which has lived in North Hudson for many generations. For the most part they have been of Italian, Irish, German, Jewish, and other European backgrounds. Until 1965 there was little change in the ethnic makeup of North Hudson and while people have strongly endeavored to maintain their cultural identity they have lived and worked together, each respecting the other's culture and identity. Indeed, North Hudson gives the lie to the melting pot theory of a homogeneous America.

This character of North Hudson perhaps answers the question of why, of all places in the country, it was such a strong attraction for so many Cuban refugees. In fact, North Hudson ranks second only to Dade County, Fla.—which is so close to Cuba itself—in the concentration of Cuban immigrants. The State of New Jersey is the target for the largest number of Cuban refugee resettlements in the Nation and the number of resettlements in North Hudson is 10 times the State average.

Naturally, this has affected the school systems. In the city of Union City, for example, the number of Cuban children in the public schools in 1966–67 increased by 356. In the 1971–72 school year (latest data) the increase in Cuban children tripled by 1,033. Today, between 50 percent and 60 percent of the children in North Hudson public schools are children of Cuban refugees. Many of these children still do not speak English well. Many of their parents have been unable to find jobs.

The mayors of the communities have set out the statistics and cost data. The cost of education is for all practical purposes the same in all the communities and the data from one community is for the most part relevant to each of the others.

Mr. Chairman, I urge you and the subcommittee to consider carefully this data and the request for assistance to North Hudson. The people of these towns are middle class working people who have always held to traditional American values. They accepted the Cubans into their communities because they earnestly and honestly felt it was their duty and responsibility as Americans to do so.

They understood the Cubans' problems because they too came from a heritage of immigrants. North Hudson residents understood also that the Cubans were fleeing from communism, that our country's position was opposed to that of the Cuban Communist government diplomatically and ideologically. They felt that it was not merely sufficient to be rhetorically against communism but that they must, having been called upon, make some sacrifice and accept the refugees who had fled from Communist Cuba. North Hudson has accepted refugees and has been a focal point for refugees from Hungary, Czechoslovakia, and other countries from which people have fled for political reasons.

But there is only so much sacrifice a community can bear. The traditional community life of North Hudson has been drastically changed. Many long-time residents have been faced with non-English speaking neighbors. They have been faced with persons of an unfamiliar culture and they have had to distinguish between Spanish-speaking Cuban immigrants and Spanish-speaking Puerto Rican immigrants who come from extraordinarily different cultures despite their common language. In spite of some Federal assistance they have nevertheless borne great health and welfare costs. Their education costs have risen tremendously in spite of Federal impact aid assistance which has been partially impounded and which has not been adequate to offset the expenses necessary to suddenly absorb so large a number of non-English speaking political refugees.

I am proud of my constituents. There has never been violence against the newcomers. There has been no prejudice, no rancor, no attempt to force them to leave. My constituents have seen their duty and they have nobly borne the challenge. Regardless of the monetary contribution by the Federal Government and distributed among all Americans, the people of North Hudson will have borne the greatest sacrifice and met the greater challenge.

I earnestly believe that the Federal Government should make at least the contribution to the communities of North Hudson that it does to Dade County, Fla. The situations are identical and the impact on North Hudson may well be greater when measured in terms of percentages of Cuban refugees in the public school systems.

Sincerely,

DOMINICK V. DANIELS,
Member of Congress.

STATEMENT OF HON. ANTHONY DEFINO, MAYOR, WEST NEW YORK, N.J.

Mr. DEFINO. Congressman Perkins, I thank you for the opportunity to appear here today. I would like to make one note before I commence my testimony. I note that three of the cities involved all claim to be the most densely populated in the State of New Jersey.

At the time, sir, when the Federal Government spent 70 percent of its total budget for education purposes—I may be wrong on the percentage—at a time when the President and the Congress should be concerned with increasing the moneys for the purpose of education, we have to appear in Washington on what I consider a most sad occasion, to give testimony on something that I think is evident, the need for more funds for educational purposes. We have peculiar problems in my own community by virtue of the Cuban impact which I would like to comment on briefly. I believe you have the figures and you were well acquainted with the problem.

If the Federal Government has a foreign policy that it wishes to implement with the Cuban situation, I don't think they should expect the towns of West New York and Union City and other impact areas to bear the cost. If they want to look good, I think they should pay the bills. I think the rest of the world should know they are trying to pay the impact on the cost of the communities and only in the form of real property taxation which I am happy to see your bill will alleviate. The concept of equal cost, the concept of equal education as pointed out by the superintendent of schools in Bayonne in terms of the California decision and the New Jersey decision is a mandate to the legislature, if one can mandate a legislature, to take care of this problem which has created inequality in education. I am seriously perplexed in what we call the greatest country in the world that anyone could propose to cut back moneys for education when we all know when we talk of defense of this country that we are going to spend moneys to educate and rehabilitate a foreign power that we just had the peace with, we are going to spend that money without very much hesitation, but we overlook the needs of our own country.

I think our first line of defense, sir, is to educate our youth because I am firmly convinced that it is our youth which will make the country strong. I would like to point out if I had not been helped when I was at the university with funds from the Federal Government, which I pay back now, but for which I am grateful, that I would not be an attorney today. I would not have had an opportunity to be educated as an attorney and make a wonderful living which I thank God I had the opportunity to have. I think the more moneys you can give, the Congress and the President, to the young people of our country to make them responsible citizens and give them the responsibility of education, is the greatest opportunity you can give because this country can only remain strong if youth has the proper education, to say nothing of the fact that among that youth, sir, might be the man or the lady, in view of the fact of liberation movement today, the man or the lady who will bring the cure for cancer or the cure for other deseases which we seem to overlook when we talk about education. Not this committee because I think we are here today among friends.

I also would like to comment on the beneficiaries of this education. West New York is not the beneficiary of this educational structure. Union City is not the beneficiary. But you, the Federal Government, and young men and women who are educated in the local communities can go on to other parts of the country and contribute to the country. You have many young people here who were educated in local schools who are now helping you, the Congress, and helping the President and advising the President and advising the Congress, and their education was received on a local basis, but the Federal Government and State government are beneficiaries. I say they should pay on a partnership basis. As far as appropriations go, a brief comment because I don't want to get involved in political problems—except I am involved as mayor of the community—and I am not getting the money. I think the final arbiter of appropriations is the public. They will say on election day, when Congress goes back to their district, they will either vote for or against them if they thought their appropriations were out of order. I don't think that the President should interfere in that area. I hope he is not within hearing distance. The point that I make is my presentation,which you have, sir, the fact that I favor the title 2 equalization grants although I think they are not as large as they should be, but that is, of course, a question of your investigation and your information. I think we need this money. There should be no question that titles 1, 2, and 3 or whatever programs are functioning should not be cut off. I don't know why they would discuss that. That should not be a question of discussion. What should be discussed is how much more money you can give us to assure the finest education for the children of our country. Also, we were obtaining Cuban aid to pay for the education of Spanish-speaking children because of this impact. It was insufficient. We would not turn it down because we take every dollar we can to insure the type of education that is necessary. But that was insufficient. Now we are losing that because we have gotten some of it through hardship funds. That is also a sad comment that education should be funded through hardship.

The fact is that that was insufficient. We need that. We need titles 1, 2, 3 moneys and we need moneys that are going to be advanced through this legislation. We need as much as we can get, not simply because we want to, although we consider it an important factor, reducing the impact of the real property taxation situation upon our constituents, but because we can no longer afford to give the type of education that is necessary.

In West New York we have a budget of $7,800 thousand to educate our children. We have 9,000 students. It will go up and up.

I refer to my superintendent's wisdom and knowledge in the area of education. My knowledge only comes by virtue of being an administrator but my administration, gentlemen, is dependent upon the Congress, the Federal Government and the State government. I can only administrate if I have the money, so it is a simple proposition. If we do not get the funds, if we do not get more funds, I am here and I brazenly states, it is not a question of getting the funds that we are supposed to lose. That is too simple. We want more funds and if we do not get them, the quality of education will suffer, the country will suffer. I know you are all for us and we have to convince No. 1600 Pennsylvania Avenue of the problem and that you want us to help. I think that all persons, not only those who come here to testify but those involved in government, should cry out to the President that he is now triffling with what I consider the most important national product of this country, our young, our children. The fact that I look at each of you gentlemen, I don't want to indulge in your educational background, but

I would assume it was sufficient. I wonder what would have happened if we had not had people like yourselves educated to sit here today to help us. That is my statement, gentlemen.

I rely on my written testimony for the official record. I want to thank you, Congressman Perkins, for your efforts and I hope and pray that our coming here today will have some impact. I don't pretend to think that we are of sufficient magnitude to do that, but I think this problem, and again, the town I am a mayor of is a microscopism of New York City, with all of the problems. In fact, there are some who have convinced Mayor Lindsay to run in that community, but, of course, we might get more problems; but the point is that we have asked you and we wish to thank you for this opportunity, sir.

[The prepared statement of Mayor DeFino follows:]

"STATEMENT OF HON. ANTHONY M. DEFINO, MAYOR, WEST NEW YORK, N.J.

"The town of West New York, N.J., is situated on the west bank of the Hudson River, directly opposite mid-town Manhattan. According to the 1970 census, the town has approximately 45,000 residents who are crowded into an area of less than 1 square mile. West New York is an urban microcosm suffering from the same problems which effect the Nation's major cities. Further aggravating these problems is the fact that West New York is the single most densely populated community in the United States.

"Among the many problems confronting West New York is the problem of financing the local school district. As in all other areas of the country the property tax is the method used to meet rising school costs in West New York.

"The municipal budget for 1972 called for $11,369,636 to be raised by taxation. This figure can be broken down in the following manner:

"County	$2,556,262
"Municipal	4,112,355
"School	4,701,019

"The 1972 tax rate for West New York was $82.14 per $1,000 assessed valuation; 41 percent of this, or $33.75, went directly for school purposes. The average assessment in 1972 for a two-family home was $16,000. The average property tax in 1972 for a two-family home was $1,300. The average amount paid by a two-family homeowner in 1972 for school purposes was $533.

"In 1973 the total amount to be raised by taxation will be $12,281,890. Of this total $5,154,719 will be for school purposes. This represents an increase of approximately 10 percent in the amount of money to be raised via taxation for school purposes.

"Currently there are six public grammar schools, one public high school, four parochial grammar schools, and one parochial high school serving West New York. Approximately 9,000 children are presently enrolled in these schools—6,800 children are enrolled in the public school system and 2,200 children are enrolled in parochial schools.

"Of these 6,800 public school pupils, 64 percent are of Spanish-speaking background and 58 percent of the total school age population are children of Cuban refugees.

"In recent years the Federal Government has assisted the community in it's dealings with the problems generated by the Cuban influx under the provisions of impact moneys, commonly referred to as Cuban aid. We have been advised by our congressional representatives that these moneys will no longer be forthcoming..

"Local taxpayers have recently borne the cost of building a new elementary school which was needed to alleviate overcrowded conditions in the amount of $4,700,000.

"We are presently in the process of expanding our present school facilities in the following manner:

"One public elementary school extension, $1,728,000, and

"One public high school extension, $2,362,400.

"The above extensions are sorely needed in order to afford the schoolchildren of West New York ample opportunity to meet the ever-changing nature of today's challenging society.

"It is my feeling that the Federal Government must take the initiative in dealing with financial crisis which daily confronts municipalities across the Nation as a direct result of the spiraling cost of education. Only the Federal Government has the resources with which to deal with a crisis of such proportion.

"The traditional method of financing local school districts via real property

taxation is no longer workable. In West New York, for example, we are, in effect forcing one- and two-family homeowners—the backbone of every community—to sell their homes and move to the suburbs.

"An alternate method of raising the money needed for educational purposes must be devised if the local communities, as we know them, are to survive.

"I recognize that one of the primary objectives of such legislation would be the creation of a partnership between State and Federal Governments which would result in improving the quality of education throughout the Nation. I must point out, however, that in the past State governments have been somewhat reluctant to assume a proportionate share of the cost of education.

"I am, therefore, in favor of title II, equalization grants, since this would result in the State's assumption of direct responsibility for education at the end of a 5-year period. In this fashion, the burden of providing moneys for the education of 9,000 children would no longer fall predominantly on the back of 2,370 homeowners as is presently the case in West New York."

Mr. DANIELS. I call next the mayor of the adjoining city of Union City, Mayor William Meehan.

STATEMENT OF HON. WILLIAM MEEHAN, MAYOR, UNION CITY, N.J.

Mr. MEEHAN. Mr. Chairman and members of this committee, in behalf of the people of the Union City, I wish to thank you for allowing me to come down here and present to you what is a most critical situation for the city of Union City and in the Hudson County area. Specifically, I would like to thank Congressman Daniels and Congressman Helstoski who represents us in the Ninth District for their concern and efforts in getting us before this committee.

I would like to give just a few facts about the city before I go into the other areas. Our city comprises a compacted density populated area of 1.4 square miles. The 1970 census showed a population of approximately 58,000. More accurately, the number of residents was in excess of 60,000. Today, we are approximately 65,000. We can state that the census of 1970 was incorrect on the basis that the forms were written in English and many of our residents cannot read or write English. They are Spanish. All of them threw the census forms in the garbage cans because no one knew what they were. So the census records are wrong. We are the most densely populated city in the United States and we are also the most heavily taxed. We have mostly two-family homes in our area. We have no industry whatsoever. We are basically what you would call the bedroom community for the city of New York. With the emergence of the Cuban nationals coming to Union City because of the Federal policy in allowing the Cuban people to leave Cuba, our Spanish population went from zero in the early part of 1960 to over 30,000 in a period of 10 years. Our population in Union City is almost 55 percent Spanish, almost all of which speaks only Spanish. Statistics will show that New Jersey has the highest percentages of resettlement in the entire part of the United States and our area runs 10 times our State average. On direct resettlement, there is a larger percentage of Cuban refugees in our area than in 46 of the States of the United States, including the District of Columbia.

In Union City, the resettlement is only 60 times the national average, a ratio of better than 60 to 1. In New York City the ratio is better than 30 to 1.

The influx of Cuban children to Union City schools since the Cuban airlift, which the Government of the United States so generously allowed to take place so the Cuban families could be reunited on their leaving the island of Cuba, from the year 1966, we have had an increase of 1,184 students of Cuban descent. In 1967, it went to 2,045; in 1968, 2,699; in 1969, 3,452; in 1970, 4,253; in 1971 and 1972, 4,574. Union City received Cuban impact funds basically from the year of 1970. Up until that time Union City was called upon to support the Cuban people, who were now coming into the area, in the area of education. The total cost for Cuban education at that time in 1969 was $2,475,084. In 1971–72, the cost is now $4,600,824.

The total enrollment of Cuban children in our schools, as of October 1972, was approximately 5,000 or 55 percent of all students enrolled in Union City schools. In 1972, our cost for the entire school situation will be $10 million. We must spend more than twice as much money in 1972 and 1973 for current expenditures as we did in 1966–67. We now have more than 5,000 Cuban children in our schools as a direct result of a Federal policy. The airlift that had been stopped for awhile which gave Union City a breather has now been renewed by the Federal Government. More people are now coming into the United States. We are

also told that there are 29,000 Cubans waiting in Madrid, Spain, to be released by the Federal Government so they can come to the United States. We know beyond a shadow of a doubt that at least 25 to 30 percent will wind up in the Union City-west New York area. Where are we going to put them? We have no schools now. The principal source of income that we have, as I stated before, is from two-family residences. We have no industry. We do not have a waterfront. We do not have railroads. We do not have any type of industry other than the embroidery industry which is highly machined to the point where we have maybe 10 people working in a factory. The people of Union City have borne all of the increases in the taxes. We cannot do it any more. Our taxes are too high and our rents are too high. I am here seeking justice for the people of Union City. It is the responsibility of the Federal Government to provide funds necessary to meet a condition created by the Federal Government. We have not and we will not shut out anyone who wants to come to the city of Union City. Only question is how do we provide for the people of the city of Union City who come? I realize this is an education committee but I also would like to explain that this influx that is a result of the Federal policy also hits us as far as public safety is concerned. Police and firemen are people who need to be paid. Teachers have to be paid. The money must come from the taxpayer. Because of the fact that we have such a large influx of people, the cost of government of running the city of Union City has gone out of proportion.

We feel in Union City that the people of Union City can no longer meet the obligation fostered upon us by the Federal Government. The Federal Government has extended the hand of justice to the Cuban refugees, but it is a strange brand of justice that slaps the hand of the recipient and at the same time ignores that segment of the population which has accepted the recipient. The action of the Federal Government must be to accept full responsibility and not create a situation and then turn its back on us. I have given the overall situation in the testimony that I have submitted to you.

I would like to stress the fact that Union City, west New York, and Weehawken are unique. We are more unique than any other part of the United States. I say that we are unique in the fact that we have people who do not speak our language coming into a school system and into an area whereby we are trying to cope with a problem. The only way we can make the American dream come true for them is to break through the language barrier, to be able to instruct them in the way of American life. Revenue sharing is a nice situation but in Union City, is becomes a disaster. It becomes a disaster because in one hand they give us x amount of dollars which they give to every other city of the United States and take away money that is desparately needed to handle the situation that has been handed to us by the Federal Government. What the effect on the school system is, I do not deal with it every day, so therefore for me to try to explain to you what would happen in the school system with the reduction of these funds would be presumptuous on my part. I have with me the assistant superintendent of Union City schools who can do a far better job than I will ever do. He works with the problem every day and he has been with the Cuban impact funds and the title I program for the past 5 or 6 years and maybe longer. I would prefer to have him testify.

Chairman PERKINS. Let him put the statement in the record and just summarize it. I think you have gone into it so thoroughly that we really understand it. Let your assistant school superintendent summarize it here if you don't mind.

Mr. SIMON. Congressman Perkins and gentlemen, I do want to thank you for your invitation for us to come here and talk about H.R. 69 and revenue sharing. We share the views of Dr. Hin and the previous speakers which need very little elaboration. It would only be a reemphasis of ideas that have come across thoroughly to you. We shall put into the record our own precise detailed record of what——

Chairman PERKINS. Without objection we will include it in the record.

[The statement referred to follows:]

"STATEMENT OF HON. WILLIAM J. MEEHAN, MAYOR, UNION CITY, N.J.

"Mr. Chairman, members of this committee, in behalf of the people of Union City, N.J. I wish to thank you for this opportunity afforded me to present to you what in fact is a most critical situation which requires your immediate attention.

"Specifically I want to thank Congressmen Dominick Daniels and Henry Helstoski for their concern and efforts in arranging for this appearance.

"At the outset may I state that financial aid is required now, immediately.

"Very candidly, gentlemen, this requirement for immediate financial aid is a direct result of actions of the Federal Government.

"Our city comprises a compact, densely populated area of 1.4 square miles. The 1970 census showed a population of approximately 58,000, however, more accurately the number of residents was in excess of 60,000 and today approximately 65,000. This gives to Union City the unenviable distinction of being the most densely populated city in the United States.

"With your permission I shall briefly review the history of the past two decades. The events of which I am sure you are familiar, however, the effect of these events upon Union City of which you are probably not aware.

"Gentlemen, it is the effect of these events which has prompted our appearance before you today. It is the effect of these events which requires immediate financial assistance.

"Less than two decades ago, 1960, the census disclosed no appreciable Spanish-speaking population in Union City. Beginning with the internal conflict in Cuba and the emergence of Fidel Castro, many Cuban Nationals began fleeing their homeland emigrating to the United States. Many of these middle-class Cuban refugees began settling and were well received in Union City.

"Our geographic location is an ideal one. We are located directly across the Hudson River from midtown New York City, access to midtown Manhattan, within 15 minutes via the Lincoln Tunnel, is available on an around-the-clock basis. Numerous bus companies provide convenient transportaton for commuters. Highways U.S. Route No. 1, U.S. Route No. 9, New Jersey South S–3 and the New Jersey Turnpike provide ready and efficient access to major areas. The Holland Tunnel, George Washington Bridge, Newark Airport, Essex, Bergen, and Middlesex Counties—a radius of approximately 30 miles—can be reached in about 30 minutes. It was only natural for middle-class Cubans to settle here. Retail business opportunities were available and the refugees became an integral part of our city by purchasing homes and establishing businesses.

"Recognizing the victory of Fidel Castro in Cuba, our government recognized the desire of many Cubans to flee their homeland. Our Federal Government responded charitably. We initiated the "airlift" resulting in a mass exodus of Cubans from the mainland to the United States. The objective of our Federal policy was to bring from Cuba relatives of refugees already in this country, so as to effect family reunions in communities to which the earlier arrivals have been settled.

"Cuban nationals already settled in Union City, the result of our Federal policy was to create an overburdening impact upon our city. In a very short period of time our Spanish-speaking population soared from almost nil to approximately 30,000. This impact affected every phase of life in Union City, principally housing and education.

"An examination of the official records of the Cuban refugee center gives a graphic description of the impact resulting from Federal policy. We must remember that these official figures relate only to direct resettlements. In actuality, the impact is even greater than that which is disclosed by statistics. Therefore, the need is even greater than the vast need established by the statistics.

"I wish to point out, gentlemen, that our neighboring community of West New York has a similar history, and recently the affect of this impact is being felt by our neighboring community of Weehawken. However, my colleagues, Mayor Anthony De Fino and Stanley Iacono, of West New York and Weehawken, respectively, are also here to testify and will relate to their respective communities.

"The statistics disclose that New Jersey has the highest percentage of resettlements in the Nation. Our area runs 10 times our State average.

"The records disclose that if we divide the total number of persons resettled by the more than 2,000 cities who have accepted these refugees, we come up with a city average of approximately 70 resettlements per city. This is the national average.

"In Union City the resettlement is more than 60 times the national average, or we see a ratio of better than 60 to 1. In West New York the ratio, as compared to the national average, is better than 30 to 1.

"As a matter of fact, on direct resettlement, there are a larger number of Cuban refugees in our area than in 46 States and the District of Columbia (including Florida, Massachusetts, Michigan, Ohio, Pennsylvania, and Texas).

"I should now like to briefly disclose to you gentlemen the influx of Cuban children to Union City schools since the 'air lift' began:

"1966 to 1967, increase	356
"1967 to 1968, increase	757
"1968 to 1969, increase	900
"1969 to 1970, increase	1,050
"1970 to 1971, increase	1,022
"1971 to 1972, increase	1,033

"With the influx in our school system we find a direct increase in cost as follows:

	Cuban refugees	Per capita cost	Total cost for Cuban refugees
1966 to 1967	1,194	$559	$786,846
1967 to 1968	2,045	662	1,353,790
1968 to 1969	2,699	700	1,899,300
1969 to 1970	3,850	776	2,987,600

"Gentlemen, in a short 3-year period we see an increase in cost of more than $2 million.

"The total enrollment of Cuban children in our schools as of October 1972, is approximately 5,000 or 55 percent of all students enrolled in Union City schools.

"Gentlemen, now let us look at the cost for current expenditures, comparing with 1966–67 school year with the 1972–73 school year:

"1966–67, cost, $4,878,794.

"1972–73, cost over $10 million.

"We must spend more than twice as much money in 1972–73 for current expenditures as we did in 1966–67, because we now have more than 5,000 Cuban children in our schools as a direct result of Federal policy. Gentlemen, where do we get this money? In all fairness should it not be the Federal Government who must provide the funds necessary to educate these children?

"Our actual school buildings consist of seven elementary schools and two high schools. In addition, we utilize as school facilities, portable classrooms, church basements, housing project, annex to a parochial school, and an office building. Making every effort and utilizing every means to house and educate our students, we have instituted a program whereby our high school students are on an eight-period day in one school, and a nine-period day in the other, with an anticipated increase of 100–150 students in 1973–74. Adding to the dilemma we have the probable loss of parochial schools which further increases our public school population.

"Gentlemen, where shall we put these students, how do we offer the necessary programs, if we must cut staff because Cuban aid stops?

"The airlift has been renewed by the Federal Government. The influx continues. Recently, many of the refugees who have resettled in other areas of our State have been moving into our area.

"WHERE ARE WE GOING TO HOUSE THE CHILDREN?

"I wish to cite just a few additional critical areas in our school system which will become hazardous with the cessation of aid:

"A. Class size: If Cuban aid stops, how do we prevent class size from going over 30? Is this being fair to the children, the teachers, the parents, the community, the Nation?

"B. Supportive services: If Cuban aid stops, what happens to our bilingual counselors, testors, psychologists, etc.?

"C. Special instructional staff: If Cuban aid stops, where do we get the necessary funds for teachers of English as a second language, bilingual teachers desperately needed to help children who cannot read, speak, or write English?

"Applying the foregoing facts to any American community would create a vast impact on the society, costs, functions, attitudes of its residents (refugee and citizen). When applied to our area the effect is devastating.

"Our principal source of income is derived from ratables received from residential premises. The greater majority are two-family residences, some multidwelling and recently two luxury highrisers. We do not have waterfront or railroad ratables. We have no appreciable industrial or commercial ratables,

"Our people, taxpayers and rent payers, have borne the brunt of the normal increase cost of local government.

"After two decades of lack of planning and inefficiency, the citizenry elected a new administration in 1970. In a move for economy and efficiency this administration eliminated superfluous municipal jobs, improved purchasing techniques, and consolidated municipal functions.

"The people can no longer be asked to carry the cost of this additional burden implemented by the Federal Government. Our taxes are too high, our rents are too high.

"For several years, as outlined above, the people of Union City have been meeting the cost of a situation created by the Federal Government which cost rightfully should have been borne by the Federal Government.

"During the past several years we did receive aid, however, the amount we received was less than the amount required. The people had to make up the difference.

"I am not here just asking for your assistance. It is not a situation where the city of Union City has created a situation and is now asking for your help. I am here seeking justice for the people of Union City. It is the responsibility of the Federal Government to provide the funds necessary to meet a condition created by the Federal Government.

"As I pointed out, not only has the Federal Government failed to justly meet the cost of its created situation, now the Federal Government wants to withdraw even that portion of its whole obligation which it has committed itself to. Gentlemen, is this justice? I ask you, without intending sarcasm, "Is this the American way?"

"In addition to the impact upon our educational system, this impact effects other areas of life in our community.

"Our housing must be adversely affected. Over 60,000 residents in an area of 1.4 square miles. The supply for housing cannot meet the exceptional demand. In many instances we see the tenant at the mercy of landlords. High rents keep going higher.

"In addition, we see apartments and rooms created in dwellings which cannot contain them. Economically, to meet taxes, two family homeowners must, by economic necessity, seek additional income. This only could lead to a health and sociological problem.

"I also must mention that problem of public safety. As you know, in our community, impacted as we are, police and fire protection must be implemented to meet the increased need. Again, we are talking economics. Again, we can trace this added service and cost directly to Federal policy.

"What type of community is this that has willingly shouldered such an unconscionable share of the burden of this Federally motivated influx? What consideration has the Federal Government shown to the people of our area?

"Gentlemen, the people of Union City, West New York and North Hudson, can no longer meet the obligation of the Federal Government.

"Our citizens are overtaxed and overstrained. We are not second-class citizens. The truth of the matter is that our people have made a Herculean effort these past years, economically, emotionally, sociologically, to withstand this burden established and fostered upon us by the Federal Government.

"We welcome our newly arriving neighbors. In them we see a future hope for development of our community. However, what development can be made if we are choked off at the very start. If our children, both native born and refugee are denied complete education, if our services must be curtailed, if our security (police and fire) is stagnated.

"If our Federal Government continues to enforce an unjust economic burden on the existing drained resources, economic and otherwise, of this community, the result will be inevitable. We will see our Federal Government destroy us, and with us the hope and aspirations of tens of thousands of these refugees.

"Our Federal Government has extended the hand of justice to Cuban refugees. Is it not a strange brand of justice that slaps the hand of the recipient and at the same time ignores and disregards that segment of its population who has shouldered the load and willingly accepted the recipient?

"Gentlemen, the action of the Federal Government must be to accept its full responsibility, not to create a situation and then turn its back.

"What I have set forth is reality. In decency and justice I say, "do not turn your back on the people of Union City."

"In closing, again permit me to thank you for this opportunity to appear before you."

Mr. SIMON. I would like to, if I may, refer to something about revenue sharing which very few people here would know. That is about 4 years ago. Commissioner Marland invited representatives from the State of New Jersey and New York to a meeting at the Commodore Hotel at which time we were to meet him for the first time. He had just come into office a few months before. The gist of his speech at that time was entirely devoted to the idea of revenue sharing for education. We had just a few questions at the time because it was so new but the thing that worried us most of course was just what would it mean in dollars and cents not just the year in which revenue sharing would be implemented but the year after and the year after. At that time, about 4 years ago, the answer was, well, we really don't know. We think that we should be able to do better the second year. It is 4 years later and when the same question is raised about revenue sharing we get not even that kind of an answer. We get a hasty response that leads us to have very very serious doubts about the value on an enduring basis of any revenue sharing program. I think it is so indirect in contrast with H.R. 69 which talks of 5 years. It is not afraid to say so. It says 5 years. We support H.R. 69 because everyone of its titles has meant as much to Union City as we shall spell out in detail as it has meant to Bayonne and the other cities. I would simply like to say first about the Cuban impact. I have been connected with ESEA since 1965 since it was first introduced, and with Cuban impact since 1969, October 3, when we made an appearance here at a hearing of your committee, Congressman Perkins, through Congressman Daniels' bill. I would like to remind you that at that time we brought with us two young ladies, two high school students who were Spanish youngsters who never knew a word of English before they came to our schools, and that the community without the Cuban impact moneys at that time had spent funds of its own to the best of its ability in giving them the English phrasing sufficient enough so when they came here to make an appearance before the committee, everyone of the members of the committee was astounded at the quality of their performance and their presentation. I might say that both ladies have gone on to do very well in our country. But they represented just two kids. Since the Cuban impact funds have come to us, we have been able to provide English as a second language training beyond any city of comparable size in the United States. As a matter of fact, we provided training for each teacher of ESL for the State. We have 24 ESL teachers on the staff now in our small school. We have 21 bilingual teachers, most of whom we have been able to get through Cuban impact aid.

It is a curious thing that happens that has not been mentioned in any presentation here, that is, with Cuban impact aid and with ESEA aid, we have been able to initiate programs that were so successful that the community then seeing the need for these things, seeing the success of it, has taken over and paid for it far beyond what they really are able to do. I can only urge the rest of the committee to have the same dedication that you gentlemen have here to support H.R. 69 and to bring back Cuban aid as well to our community. Thank you.

Mr. MEEHAN. The tax situation in Union City is really out of proportion and in a moment of levity may I say that you people have 14 years in Congress and your job is a lot more steady than mine as far as the taxes are concerned.

Thank you very much for allowing us to be here this morning.

Mr. DANIELS. Mr. Chairman, both Mayor DeFino and Mayor Meehan have testified as to the density of the population in both of their communities. As a result of the impact of the Cuban refugees, in both of their communities, the problems of west New York and Union City have now spilled over to the adjoining community of Weehawken. I am pleased to present the mayor of that community as the next witness. Mayor Stanley Iacono of Weehawken.

STATEMENT OF HON. STANLEY IACONO, MAYOR, WEEHAWKEN, N.J.

Mr. IACONO. Thank you, Congressman, Mr. Chairman, and members of the committee, I take this opportunity to thank you for giving us an audience here with you this morning and especially to Congressman Daniels, although on opposite side of the political fence, I can only tell you whenever Weehawken has come for his assistance, Congressman Daniels has been there and on behalf of all of the people of Weehawken, I thank you Congressman, for your help.

Mr. DANIELS. I appreciate your comments.

Mr. IACONO. I am submitting this presentation to you this morning in hope of gaining some Federal financial assistance in our area. It seems to be that we

all had the same mutual problems as the Congressman just explained what has been the problems of both Mayors DeFino and Meehan, it is also our problem in Weehawken. That is because western New York being at the north of Weehawken, Union City being at the west of Weehawken, Hoboken being to the south, and to the east of Weehawken is New York City, the greatest financial area in the entire world. What is happening is that people are moving into Weehawken because of the proximity to New York City being that it is only 10 minutes away. We do have many Cuban refugees coming into Weehawken approximately right now 4,000 residents. Back in 1965 we only had 9.8 percent when the impact started to effect the neighborhood and now we are up to 19.3, although by Government standards we don't qualify because the minimum should be 20 percent. However, the bill that we support for the extension of these programs certainly feel that this could help a small town of a population the size of 13,383. Back in 1940 and 1950, we did not have any problems and we would not have to worry about revenue sharing or about certain bills that we need for the difficulties that we are experiencing. We don't have the railroads operating like they have back in the forties and fifties. Forty-seven percent of our taxes were paid for by the State subsidies. Therefore, the entire complexity has changed. We do have a serious problem because we do have an obligation to our community to give the children the best education available. We seek your help in helping us do this. I wish we did not have to seek your help. I would have liked to have said we could do this on our own. However, that is an impossible task at the present time. We do have title 1 in our school system for the mere amount of $10,000. We could only keep that in one school. We have four schools in our system and the rest that we tried to hire the bilingual teachers, that all comes through the taxpayers' dollars. However, we would like to see that program expanded. It seems that when revenue-sharing allocations are made for funds, a town, because of the population size, doesn't qualify. In Weehawken we received $40,000 for this year, $20,000 at the last quarter of last year. But as Mayor DeFino said, we all take what we can get because of the problems that are curtailing our services.

Our tax rate is a poor situation because it is dealing with our education system in Weehawken. I am going on my 5th year in office. Within the last year the taxes have increased up to $25.64. This is why whenever any programs are available we want to take advantage. We want the Government to realize that because of size, we still have the same problems. They may be small problems, but we have the problems. When I see a bill such as title 1 on H.R. 69, it is encouraging to hope and to feel that consideration will be given to a small town regardless of the other situations.

In closing, I would like to say that we all have mutual problems. Mayor Meehan states he doesn't know where the people are going to move from Union City anymore. I can tell you they are moving into Weehawkan. I wish we had additional dollars to build the schools we want to build. Recently, we had $3 million bond issue which is so needed in our school system. The schools are overcrowded by the increasing population of the Cuban refugees and we had to knock this bond issue down because of the current tax rate, because of the increased tax rate of last year. This is a crime. This is a shame. Because this is how we are trying to give the education the best quality education we can to our community. So if we can get some additional assistance in this federally impacted school district area, I feel that something is happening for the betterment of the entire community. I thank you.

Mr. DANIELS. Mayor Iacono, do you have any other witnesses to present?

Mr. IACONO. I have my superintendent of schools if you wish to have him elaborate.

Mr. DANIELS. I will leave it up to him if he wishes to give a brief statement on the Cuban refugees in the school system.

Mr. GENDRIN. I want to thank Chairman Perkins for allowing me to be here with our mayor today. We have always had a great respect for Congressman Daniels.

I have seen many changes come over Weehawken in the 42 years that I have been there. I can honestly say that these Spanish-speaking boys and girls are being very well received by the neighborhood of West New York, Union City, and Weehawken. I feel proud of these boys and girls for their behavior. They do not give some of the disciplinary problems. I wish some of the English-speaking children in Weehawken gave us as few problems as they do. They are eager for an education. I was so sorry to find that these two buildings that we needed so

urgently were knocked down a few weeks ago. I sincerely believed that this committee and others who may be able to help this north Hudson area please do so.

I thank you.

[The statement referred to follows:]

"STATEMENT OF HON. STANLEY D. IACONO, MAYOR, TOWNSHIP OF WEEHAWKEN, N.J.

"I am Stanley D. Iacono, mayor of the township of Weehawken.

"I am submitting this presentation to you in the hope of gaining Federal financial assistance for the Weehawken school system to meet the ever-mounting burden on our taxpayers caused by the resettling of hundreds of Cuban refugees into our community.

"The township of Weehawken is located in northern Hudson County at the New Jersey terminus of the Lincoln Tunnel, immediately across the Hudson River from Manhattan. We are bordered on the east by the Hudson River, to the north by the town of West New York, to the west by the city of Union City, and to the south by Hoboken. The population totals 13,383 on a land mass of 520 acres or .9 square miles.

"Because of our unique setting, many families choose to settle here and work in New York City, the home of the greatest financial opportunity in our nation. It takes these commuters only 10 minutes to reach Manhattan through the Lincoln Tunnel. This geographical arrangement seems to be particularly appealing to the Cuban refugees, as an estimated 4,000 have settled into our community, virtually all since 1965.

"Our school system, of course, has been hard hit by this influx of 2,171 resident children in average daily attendance in our four schools today, we have 622 Spanish surnamed pupils, or 28.6 percent. When this is compared with the 1965–66 school year, when our Spanish surnamed pupils, numbered only 177 of the 1,815 resident students or 9.8 percent, the increasing magnitude of the problem is readily recognizable.

"Consider the following:

"(A) Our staff in 1965 did not have the proper training to teach Spanish-speaking students. We were forced to hire bilingual teachers for these children, at a greater expense to the board and, therefore, the taxpayer.

"(B) New textbooks were purchased for use by these children until they could function in a regular classroom, again at the expense of the board and the taxpayer.

"(C) Our high school has been forced to revert to the "stagger system," whereby the normal eight-period day was expanded to 10 periods. Seniors attend morning classes and the balance of the student body attend the afternoon sessions.

"(D) The implementation of dividers was adopted in our schools in the hope of providing more classroom space. Multipurpose rooms, originally used for conferences, recreation, and speeches, have now become classrooms with inadequate blackboard space, lighting, and furnishing, making them generally not conducive to study.

"(E) In one instance, funds for environmental classes were approved, yet our school board was forced to refuse them because physically, the classroom space was not available.

"(F) During the 1965–66 school year, the board of education employed 118 teaching personnel and 56 nonteaching personnel. Today, we have 163 teachers on the payroll and 63 nonteachers, an increase of 45 and 7, respectively.

"The burden on the Weehawken taxpayer has grown tremendously. Since our 1965–66 school budget, the cost to our taxpayers of educating the Weehawken schoolchildren has increased almost twofold, from $1,153,782 to $2,120,219.

"Our residents have an overall tax rate today of $66.69 per thousand compared with just $45.20 in 1970. Of this, our school board receives $28.95 as opposed to just $25.75 3 years ago. To cite an example, for a homeowner whose property and house have been assessed at $40,000, he will pay $2,667.60 per year in city tax, $1,157.74 of which will go toward education.

"It is no wonder that a $3 million bond issue to add 10 classrooms each to Roosevelt and Wilson schools was rejected by the township council after public hearings. The citizens simply cannot afford the added tax burden this would necessitate.

"To be sure, of 13,383 residents of Weehawken, some 2,580 are senior citizens (60 and over). This 19.3 per cent of the population, most of whom are on a fixed income, can ill afford the tax rate they are presently paying, to say nothing of additional taxes. Another 16.2 percent of the population (2,171) are students and make little, if any, contribution to the Township.

"This totals over one-third (35.5 percent of the whole community (not counting 4.2 percent unemployed)), leaving an overwhelming burden on the remainder to support our tax share to Hudson County, the local school system, local services and veterans and senior citizens.

"The school system has made accurate and complete surveys of our Cuban population over the past three school years, in a vain attempt to qualify under title I of Public Law 81-874, Financial Assistance in Federally Affected Areas. Each time we have fallen short of the required 20 percent minimum, though our Cuban refugee student population continues to grow.

"I cannot help but assume that our problems caused by the influx are similar to those of our neighboring communities, only on a smaller scale. Yet, we are refused proportionate assistance to meet them.

"This year, the school board began pilot project in bilingual education as opposed to the English as a second language approach. This is indeed a costly proposition, yet we feel it is the superior method in educating our predominantly Spanish-speaking students.

"But the present program only begins to touch those in need of remediation because of language difficulties.

"Accordingly, we have made application under the Bilingual Education Act (title VII, ESEA) for a grant of $140,019 to fund a full-scale program for one school year. We can only hope the Office of Education recognizes our plight and funds the program.

"Indeed, upon close examination of the supporting data, which follows, it becomes obvious that the Weehawken school system and the Weehawken taxpayer both are in a desperate situation.

"In closing, I am certainly proud of the Federal Government for granting asylum to those Cuban refugees who escaped Castro's island and later, for diplomatically arranging for others to live in the freedom of America. Now the same Government must help the municipalities where these refugees have settled in solving the unique problems which have resulted.

"What began as a noble act of mercy has become an overwhelming problem to the taxpayers of our community.

"As representatives of the people, with the power to approve appropriations and the responsibility to make our Nation greater internally, I and the Weehawken citizenry plead for your help.

"Appendix I

"THE WEEHAWKEN SCHOOLS

"Weehawken High School (grades 9–12):
"(A) Built in 1940.
"(B) Houses 38 classrooms.
"(C) Present enrollment of 1,150, including tuition paying students from Secaucus.
"Daniel Webster School (grades K–6):
"(A) Built in 1940.
"(B) Houses 24 classrooms.
"(C) Present enrollment of 389.
"Theodore Roosevelt School (grades K–6):
"(A) Built in 1928.
"(B) Houses 28 classrooms.
"(C) Present enrollment of 518.
"Woodrow Wilson School (grades K–8):
"(A) Built in 1926.
"(B) Houses 25 classrooms.
"(C) Present enrollment of 613."

APPENDIX I

TOTAL AVERAGE DAILY ENROLLMENT

School year	Resident	Total
1965 to 1966	1,815.2	2,137.4
1966 to 1967	1,976.7	2,480.3
1967 to 1968	2,027.5	2,575.1
1968 to 1969	2,083.7	2,654.5
1969 to 1970	2,095.9	2,653.o
1970 to 1971	2,144.5	2,710.0
1971 to 1972	2,145.1	2,697.2
1972 to 1973 (estimate)	2,171.0	2,741.0
1973 to 1974 (estimate)	2,183.0	[1] 2,593.0

[1] Reflects the building program in Secaucus which will gradually phase our these students, and their tuition.

Note: The total includes tuition paying students from Secaucus who attend Weehawken High School.

APPENDIX III

LOCAL TAX LEVY FOR EDUCATION

School year:	Tax levy for education
1965 to 1966	$1,153,782.00
1966 to 1967	1,244,455.00
1967 to 1968	1,344,594.98
1968 to 1969	1,612,352.00
1969 to 1970	1,602,588.00
1970 to 1971	1,847,506.00
1971 to 1972	1,867,842.00
1972 to 1973 (anticipated)	2,120,219.00
1973 to 1974 (anticipated)	2,525,823.00

APPENDIX IV

TAX RATE AND AMOUNT TO SCHOOLS

Year of taxation	Tax rate	Amount to schools
1965 [1]	$111.08	$32.14
1966 [1]	117.48	38.87
1967 [1]	113.48	57.92
1968	47.47	26.40
1969	46.51	25.05
1970	45.20	25.75
1971	53.01	24.78
1972	66.69	28.95

[1] Before 100 percent assessment.

Mr. DANIELS. Mr. Chairman, I would like to ask each of the mayors a question and I would like them to give his own response to my next question. I believe you mayors have given us your school population figures relative to the number of Cuban refugees that you have in your schools. I would like you to advise this committee as to the ratio between Cuban population to total population. Mayor DeFino, I believe you said you had 9,000 students enrolled in your elementary and secondary schools.

Mr. DEFINO. That includes parochial, 6,800 public-school pupils, 64 percent of those are Spanish-speaking.

Mr. DANIELS. Mayor Meehan, can you tell us the percentage of refugees enrolled in the public schools?

Mr. MEEHAN. Fifty-five percent; 5,000 out of 9,000 Cubans.

Mr. IOCONNO. We have 26 percent, 19.3 percent qualified for Cuban aid, but we have other Spanish-speaking students that would come up to around 26 or 26 percent of the total population.

Mr. DEFINO. Sixty-four percent are Spanish-speaking. Fifty-eight percent are Cuban because we have other Spanish-speaking pupils.

Mr. MEEHAN. Congressman Daniels, if I could impose upon the committee for a moment, I also have with me Dr. Luisa de la Torre, who is a Cuban national, who is now an American citizen. She is a trustee on our board of education in Union City. I would like her to say a few words on behalf of what type of work we are trying to do.

Mr. DANIELS. Do you have any objection, Mr. Chairman?

Chairman PERKINS. No objection. Mrs. De la Torre?

Mrs. DE LA TORRE. I am one of thousands and thousands of Cubans who came to Union City in the last decade. We came here and we now have sons and daughters who are first-generation Cuban Americans. We are proud to be Americans and be fathers and mothers of the first generation of Cuban Americans, but we are changing our feelings because we were happy when we came here seeking freedom. Now we are changing that feeling to a guilty one because we are bringing too many problems to the cities that open their arms to us and since I am on the board of education and trying to help my community, I would tell you one point. We have been living in peace and harmony, because of those programs we had with Federal moneys ESL because we are trying to adopt and adjust our children to American way of life. If we don't have those moneys we don't have those programs. I don't know the future and peace and harmony of our cities.

Mr. DANIELS. Thank you, Mr. Chairman.

Dr. HIN. Would it be permissible for Dr. Rossnick of our State board of education to make a brief statement?

Chairman PERKINS. Yes.

STATEMENT OF DR. GERALD H. ROSSNICK, VICE PRESIDENT, BOARD OF EDUCATION

Dr. ROSSNICK. Again, we are grateful for the past interest and devoted interest of this committee and I know the future interests of this committee for welfare of youngsters in both the State of New Jersey and the Nation. Going around the State of New Jersey as I do as a delegate, I hear many, many things in regards to the purposes of education. Today, we feel that those of us who are vitally concerned with the educational process in this Nation should be in mourning for the President's methodical destruction of the educational foundation of this entire Nation. The future of America lies with the children outside of this building. Its future citizens, its leaders, future congressmen, future Cabinet men, and indeed its future President depend on not wronging the foundation of our seat through curtailment of needed funds to promulgate sound educational principles and practices. By restricting learning skills, guidance, techniques, and the like, through a cutback in Federal funds, basically provided by the very same taxpayers who expect dollar accountability through fair and proper spending, this to us is undemocratic and totally unrealistic in the real world of today. Throughout the State and throughout our constituents here, we again beg you to consider all programs vitally needed for the children of America because the children of America will keep America as great as it is today.

Thank you.

Mr. DANIELS. That concludes the presentation, Mr. Chairman. I would, however, ask unanimous consent to introduce into the record a letter I wrote in the latter part of January to Roy A. Ash, Director of the Office of Management and Budget with regard to the cutting off of section 3 funds for the town of West New York and the city of Union City. I did not make in that letter any statement with regard to the problem of the township of Weehawken. However, I did ask for an appointment to confer with him with regard to this problem. I am indeed sorry to say that it was over a month before I received a pro forma response to my letter. I would like to incorporate this letter into the record at this time.

Chairman PERKINS. Without objection, it is so ordered.

[The letter referred to follows:]

"JANUARY 29, 1973.

"ROY L. ASH,
"*Director, Office of Management and Budget,*
"*Executive Office Building, Washington, D.C.*

"DEAR DIRECTOR: Pursuant to title I, section 3(b) (3) of Public Law 81-874 as amended by Public Law 91-230, the town of West New York and the city of Union City, N.J., were authorized to receive reimbursement for education expenses paid out on behalf of children of Cuban refugees. These refugees settled in the two communities as a result of the Migration and Refugee Assistance Act of 1962 (Public Law 87-510) and the subsequent Federal Cuban airlift.

"Under Public Law 81–874, as amended, children of Cuban refugees may be counted among those children for whom school systems are otherwise reimbursed under title I, Public Law 81–874, section 3(b) (3)[1]

"It was the opinion of the Congress that Cuban refugees, brought into the United States under Federal sponsorship and who settle in large numbers in specific communities have a similar and as great an impact on those communities as do uniformed or other Federal personnel for whom school systems are reimbursed. Because the refugees are brought into the country under the sponsorship of the Federal Government, the Congress determined that the Federal Government has a responsibility to contribute toward their welfare.

"The impact of the Federal Government's Cuban airlift has been far greater on the municipalities of Union City and West New York than many Federal installations. In the two New Jersey communities, the percentage of non-English-speaking children in the school system jumped from insignificance to over 50 percent within 2 years. Thus, as a result of the Federal airlift, these two communities must provide special education facilities including additional teachers with bilingual training, extensive teacher training, special texts, and additional counseling facilities and other resources exclusively to provide for refugee children. In Union City, if the Federal contribution were ended, local taxes would have to be raised $7 per thousand.

"The two communities have a long history of meeting their responsibilities. They originally accepted the refugees into the community without turmoil and have provided extensive assistance in integrating the newcomers into the community. Nevertheless, they felt that the Federal Government must and by right ought to pick up part of the financial cost of initially integrating the refugees into the community. I agree as did the Congress and the administration for the past 3 years.

"It should be noted that the law authorizing Federal payments to the two school systems provides only for the costs of initial impact. It is effective only so long as (1) 20 percent of the school population consists of children of Cuban refugees and (2) the parent has been a refugee within 3 years prior to the beginning of the fiscal year. Thus, the child of a parent who has been in a refugee status for longer than the designated period cannot be counted toward reimbursement for education expenses.

"This provision reflects the rationale that by the time a refugee has been here 3 years, he or she will have become self-supporting and a taxpaying member of the community. Thus, the provision for reimbursement of expenses on behalf of refugees has an automatic suicide clause which effectively cuts off funds when they are presumably no longer needed. The communities, the Congress, and the administration agreed that this was an equitable arrangement. In fact, however, as a result of rising prices and unemployment, the arrangement has not worked out as anticipated and the communities have not been able to realize the tax equity anticipated.

"The decision to cut off these funds to West New York and to Union City seems so grossly unfair, so arbitrary a renunciation of the 1970 agreement between the communities and the Federal Government, that I can only assume that the decision must have been inadvertent as part of the decision not to fund "B" children under impact aid.

"I would appreciate the opportunity of meeting with you to discuss the reestablishment of these funds in the Federal budget, either as part of the impact aid formula or the Cuban refugee program of the HEW Social and Rehabilitation Service.

"Sincerely,

"DOMINICK V. DANIELS,
"*Member of Congress.*

"[1] Reimbursement is based upon 'the number who were in average daily attendance . . . during a fiscal year, and who, while in attendance . . . resided with a parent [or guardian] who was at any time during the 3-year period immediately preceding the fiscal year for which the determination is made a refugee who meets the requirements of Sec. 2(b)(3) (A) and (B) of the Migration and Refugee Assistance Act of 1962.'

"A refugee under the 1962 act is defined as an alien who has fled from and cannot return to a nation or area of the Western Hemisphere because of racial, religious, or political persecution or fear of persecution.

"In order for a school system to be eligible for aid, at least 20 percent of the children in average daily attendance must be children of refugees.

Mr. DANIELS. Mr. Chairman, I would ask unanimous consent to have included in the record a letter from the Board of Education, West New York, N.J., addressed to me, Congressman Daniels, dated January 25, 1973.

Chairman PERKINS. Without objection, it is so ordered.

[The letter referred to follows:]

"BOARD OF EDUCATION,
"*West New York, N.J., January 25, 1973.*

"Hon. DOMINICK DANIELS,
"*House of Representatives,*
"*Washington, D.C.*

"DEAR CONGRESSMAN: Enclosed please find facts and figures which help to explain the crisis situation which the west New York schools are presently facing and which show how necessary it is to secure Federal funds because of the tremendous impact the Cuban refugees have had on our schools.

"You will note that our budget expenditures have tripled since 1963 when the Castro emigration to west New York became serious. The following table shows this clearly:

"Year:	*Budget*
1962 to 1963	$2,500,118
1963 to 1964	2,578,452
1964 to 1965	2,579,237
1965 to 1966	2,854,000
1966 to 1967	3,146,238
1967 to 1968	3,440,853
1968 to 1969	4,043,665
1969 to 1970	4,828,535
1970 to 1971	5,581,862
1971 to 1972	6,279,620
1972 to 1973	7,409,843

"At the very same time, our budget practically tripled from 1962 to 1972; during this same period of the Cuban impact upon our schools, our population increased from 4,518 pupils in 1962 to 6,900 in 1972–73.

"In 1962, there were 224 Cuban refugees in our system. Here is a schedule of what happened thereafter:

"Year:	*Cuban refugees*
1962	224
1963	317
1964	510
1965	1,274
1966	1,896
1967	2,373
1968	2,945
1969	3,260
1970	2,616
1971	2,400
1972	2,380

"Based on our per capita cost per pupil, west New York spent $8,432,534, on Cuban refugee children up to 1970 and about $14 million to the present date.

"While it is true that the number of Cubans coming in to west New York is slowing down, nevertheless, our problem is a continuous one. Right now, we have 3,744 Cubans in our system. There are 4,242 boys and girls of Spanish extractions. Our Cubans represent 57.2 percent of our population; the balance of the Spanish section brings this up to 64.8 percent.

"On our part, we have tried to meet this challenge head on. We have established English as a second language class which costs us $500,000 each year just for 520 of the more recent arrivals and these pupils represent merely 13 percent of the total Spanish population.

"We need help badly. Our tax situation and our school problems depend so much on Federal aid.

"We know that just as you have worked so diligently on our behalf for the past 10 years, that we can count on you once more.

Very truly yours,

CARL RAPARELL,
"*Superintendent of Schools.*

"Enclosures."

Year	Budget expenditures	Enrollment
1962 to 1963	$2,500,118.12	4,518
1963 to 1964	2,578,452.63	4,598
1964 to 1965	2,579,237.73	4,599
1965 to 1966	2,854,000.07	4,720
1966 to 1967	3,146,238.51	5,068
1967 to 1968	3,440,853.52	5,459
1968 to 1969	4,043,665.13	5,905
1969 to 1970	4,828,525.00	6,600
1972 to 1973	7,409,843.00	6,900

BOARD OF EDUCATION—WEST NEW YORK, N.J.

School year	Cuban refugees	Per capita cost	Total cost for Cuban refugees
1962 to 1963	224	$553.37	$123,954.88
1963 to 1964	317	560.78	177,767.26
1964 to 1965	510	569.83	286,023.30
1965 to 1966	1,274	604.66	770,336.84
1966 to 1967	1,896	620.80	1,177,036.80
1967 to 1968	2,373	630.31	1,495,725.63
1968 to 1969	2,945	684.79	2,016,706.55
1969 to 1970 [1]	3,260	731.59	2,384,983.40
Total amount expended for Cuban refugees to date (1970)			8,432,534.66
1970 to 1971	2,616		
1971 to 1972	2,400		
1972 to 1973	2,380		
Total			14,000,000

[1] As of Sept. 30, 1969.

Note: It can readily be seen that West New York has expended over $14,000,000 since 1962 on Cuban refugee pupils.

"BOARD OF EDUCATION,
"*West New York, N.J., July 2, 1971.*

"Mr. FREDERICK WOMBWELL,
"*Division of Business and Finance,*
"*Department of Education, Trenton, N.J.*

"DEAR MR. WOMBWELL: This is the followup report requested to show current numbers of Cuban refugee pupils, who arrived after October 3, 1965, and presently are enrolled in our schools. This report updates the survey taken as of March 31, 1971.

Grade	Enrollment as of June 24, 1971 (last day of school)	Cuban refugees arrived after Oct. 3, 1965, and reported as of Mar. 31, 1971	Cuban refugees arrived after Oct. 3, 1965, and enrolled as of June 24, 1971	Increase since Mar. 31, 1971	Percent of Cubans
K	425	161	166	5	0.39
1	417	117	121	4	29
2	471	201	202	1	42.88
3	531	223	224	1	42.1
4	444	159	162	3	35.8
5	413	144	144	0	34.86
6	405	118	119	1	29.1
7	420	148	150	2	35.7
8	430	133	133	0	30.9
ESL ungraded	797	650	735	85	92.2
Special education	62	26	26	0	41.9
9	546	197	203	6	37.17
10	432	121	121	0	28
11	326	66	70	4	21.47
12	342	40	40	0	11.7
Total	6,461	2,504	2,616	112	40.48

"Total percent Cuban refugees—arrived after Oct. 3, 1965 ..... 40.48
"Total days present—school year 1970–71 ..... 1,030,864.05
"Total days absent—school year 1970–71 ..... 120,378.95
"ADA 1,030,864.5÷180 possible number of days=5,727
"ADA (Cubans) 5,725×40.48=2,318.28

"Sincerely,

"JOHN V. WHITE, Jr.
"*Superintendent of Schools.*

SURVEY OF SCHOOL POPULATION—WEST NEW YORK, N.J.

	Number	Percent
Spanish speaking:		
Cuban	3,465	53.6
Puerto Rican	135	2.1
Central American	78	1.2
South American	181	2.8
Total Spanish speaking	3,859	59.7
Caucasians (other)	2,553	39.5
Blacks	53	.8
Total	2,606	40.3
Grand total	6,465	100.0

"Dated: July 29, 1971.

"JOHN P. COURTNEY,
"*Secretary, West New York Board of Education.*

"*Title III.—Adult education (evening school plus learning center)*

"Fiscal year 1970–71:
Title 2 B $9,066
Title 3 19,000
Total 28,066
"Fiscal year 1971–72:
Evening school 36,500
Learning center 35,000
Total 71,500
"Fiscal year 1972 26,500

"BRUNO ASSOCIATES, INC.,
"PUBLIC RELATIONS CONSULTANTS,
"*Newark, N.J., January 5, 1973.*

"1972–73 West New York Cuban Refugee Survey

FINAL RESULTS

School	After July 1, 1969	Before July 1, 1969 and after Oct. 3, 1965	Total eligible	ADA
P.S. No. 1	134	96	230	638.0000
P.S. No. 2	191	163	354	926.6422
P.S. No. 3	94	77	171	446.4056
P.S. No. 4	136	156	319	674.2641
P.S. No. 5	241	226	467	803.0000
H.L.B.	233	200	433	912.1500
M.H.S.	171	235	406	1719.0000
Total	1,227	1,153	2,380	6,119.3119

"There was a total of 3,182 completed surveys, leaving 812 ineligible. We are over the 20 percent mark easily, with 35.8 percent of eligibility. The applications should be mailed to:

"FREDERICK WOMBWELL.

"BOARD OF EDUCATION,
"*West New York, N.J., January 3, 1973.*

"*To Whom It may Concern:*

"The six elementary schools and the Memorial High School which make up the West New York school district are free from any discrimination as to race, color, religion and economic status.

"All our elementary schools are treated in the same fashion. Each has its own library, librarian, remedial teachers, vocal teachers, home economics teacher, shop teacher, art teacher, and instrumental music teacher. The special services offered by the child study team, two psychologists, a psychiatrist, a learning disability specialist, a social worker, and a medical team are open to all school and to all pupils on an equal basis.

"When books, material, equipment are purchased, each school gets its proportionate share. Because of the influx of the Spanish speaking pupils, bring educationally deprived and economically disadvantaged pupils to our Town, we go out of our way to spend more money for these groups. These pupils are not concentrated in one school. The percentage of Spanish-speaking pupils in our elementary schools range from 52 percent to 87 percent and in the high school it is 55 percent.

"As far as the make-up of the faculty of each school is concerned, we have no "punishment" school where "problem" pupils or "problem" teachers or inferior or inexperienced teachers are "exiled" or sent. While we have had a high turnover of the faculty during the last 10 years, we find after an examination, that the faculties of each school consist of teachers, some with over 30 years experience, other with 20 years, as well as younger teachers. There is a happy balance of age and experience. Very few teachers are shifted to other schools, but if it is done, it is because that teacher has a special service which would be helpful and then only if the teacher desires to transfer.

"When we hire new teachers, in spite of salaries, we consider experienced teachers. For the last 8 years, we have met the challenge of the Cuban and Spanish emigration which make up 64.3 pecent of our school registration, by hiring over 35 English as A second language teachers, 18 of whom were formerly teachers in Cuba.

"There is no discrimination in West New York as to race, color, religion. On the contrary we go a long way to meet our primary problem—to help our children who have come to us from South America and Cuba and to help other deprived boys and girls.

"Very truly yours,

"CARL RAPARELLI, *Superintendent of Schools.*

SCHOOL CENSUS—SEPT. 30, 1968—SCHOOL YEAR 1968-69

School	Enrollment	Number in English	Passable (needs help)	Satisfactory	Total	Percent
1	643	67	31	96	194	30.1
3	449	45	47	48	140	31.2
4	664	116	110	125	351	53.0
5	1,435	247	298	537	1,082	75.4
H.L.B	1,070	127	139	167	433	40.5
Total	4,261	602	625	973	2,200	51.6
M.H.S	1,518	114	101	530	745	49.1
Total	5,779	716	726	1,503	2,945	51.0
Sept. 30, 1967:						
Elementary schools	3,969	[1] 579	489	755	1,823	
M.H.S	1,490	78	55	323	456	
Total	5,459	657	544	1,078	2,279	
Increase	320	59	182	425	666	

[1] Apr. 15, 1968.

"Mr. CORNELIUS R. MCLAUGHLIN.
"*Deputy Director, Division of School Assistance in Federal Affected Areas,*
"*U.S. Office of Education, Washington, D.C.*

"DEAR MR. MCLAUGHLIN: The following report on Cuban enrollment in the West New York Public Schools is hereby submitted:

	Previously reported (Dec. 10, 1969)	Additional to date (May 6, 1970)	Total
Code 1	1,704	208	1,912
Code 2	528	18	546
Code 3	169	18	187
Code 4	37	4	41
Code 5	4		4
Code 6			
Total	2,442	248	2,690
Cubans born in United States	605	16	621
Spanish S.A. Non-Cubans C.A.	247	14	261
Total Spanish speaking			3,572

"Sincerely,

"JOHN J. WHITE, Jr., *Superintendent of Schools.*

"BOARD OF EDUCATION,
"*West New York, N.J., September 25, 1969.*

ENROLLMENT OF CUBAN PUPILS IN THE WEST NEW YORK, N.J. PUBLIC SCHOOLS

	1964-65		1965-66		1966-67		1967-68		1968-69	
	Sept.	Add Since Sept.	Sept.	Add since Sept.	Sept.	Add since Sept.	Sept.	Add Since Sept.	Sept.	Add since Sept.
School No. 1	72	19	93	23	146	48	221	46	286	58
School No. 3	55	11	58	14	61	17	69	22	121	39
School No. 4	65	10	100	30	140	50	150	68	252	110
School No. 5	605	70	710	65	735	70	880	90	950	80
H. L. Bain	176	22	205	31	291	28	332	35	379	32
Total elementary	973	132	1,166	163	1,373	213	1,652	261	2,269	319
High school	180	23	210	35	264	46	440	20	484	147
Grand total	1,153	155	1,376	198	1,637	259	2,092	281	2,753	466

"JOHN J. WHITE, Jr., *Superintendent of Schools.*

CENSUS: SPANISH-SPEAKING PUPILS—WEST NEW YORK PUBLIC SCHOOLS—SEPT. 30, 1969

[Spanish speaking includes those who speak only Spanish as well as those who can communicate in English]

	Total enrollment	Number of Cubans (parents are non-citizens)[1]	Number of Cubans (parents are citizens)	Number from South America	Number from Central America	Number from Puerto Rico	Percent	Total Spanish speaking
No. 1	686	190	48	13	5	19	10	275
No. 3	475	143	18	18	12	16	16	207
No. 1	751	398	48	13	12	14	64.5	485
No. 5	1,496	1,029	116	36	11	31	5	11,223
H. L. Bain	1,095	441	57	42	18	14	52.2	572
Total elementary	4,503	2,201	287	122	58	94	61.9	2,762
High school	1,599	673	99	51	20	36	55.6	879
Grand total	6,102	2,374	386	173	78	130	59.66	3,641
Percent		47.1	[2]	2.8	1.2	2.1		

[1] Refers to U.S. citizenship.
[2] Number, 3,260; percent, 53.6.

DATA FORM—WEST NEW YORK, N.J.—1971-72 BASE SCHOOL YEAR

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10
Name of school	Negro	American Indian	Spahish-surnamed American	Portuguese	Asiatic, Oriental	Alaskan Natives	Hawaiian Natives	White Caucasians non-minority	Total
P.S. 1	5		366		0			357	728
P.S. 3	22		261		6			228	517
P.S. 4	4		600		14			258	876
P.S. 5	4	1	1,305		27			244	1,581
H.L.B.	2		750		18			378	1,148
	11	2	968		21			850	1,852
Total	48	3	4,250		86			2,315	6,702

Chairman PERKINS. Mr. Forsythe, any questions?

Mr. FORSYTHE. No, thank you, Mr. Chairman.

Chairman PERKINS. Let me thank all of you for your appearance here today. I feel you have been very helpful to the committee. I am particularly delighted that Mr. Daniels made arrangements to see that you got down here. We look forward to your return sometime in the future and we will do the best job we can writing the legislation. We thank all of you.

[Whereupon, at 12 p.m. the meeting adjourned, to reconvene at 9:30 a.m., March 15, 1973 in room 2557.]

STATEMENTS OF INTERESTED INDIVIDUALS AND ORGANIZATIONS

Mr. PASSMAN. I would also like to include in the record several statements received by the committee covering various subjects before the committee.

[The statements follow:]

STATEMENT BY GAYNOR I. JACOBSON, CHAIRMAN, COMMITTEE ON MIGRATION AND REFUGEE AFFAIRS OF THE AMERICAN COUNCIL OF VOLUNTARY AGENCIES FOR FOREIGN SERVICE, INC.

Mr. Chairman: I am Gaynor I. Jacobson chairman of the Committee on Migration and Refugee Affairs of the American Council of Voluntary Agencies for Foreign Service, Inc., and executive vice president of United HIAS Service.

Other vice chairmen of the committee are as follows:

Mr. Charles Sternberg, executive director, International Rescue Committee, Inc.

Rev. John W. Schauer, director Immigration Services, Church World Service.

Mr. Donald E. Anderson, director Lutheran Immigration and Refugee Service, LCUSA.

Mr. Edmund E. Cummings, associate director, Migration and Refugee Services, U.S. Catholic Conference.

Dr. Jan Papanek American Fund for Czechoslovak Refugees, Inc.

Mrs. Tatiana Schaufuss, executive vice president, Tolstoy Foundation, Inc.

This statement is presented on behalf of the voluntary agencies directly concerned with migration and refugee assistance in all areas of the world. Twenty-six voluntary agencies (see attached list) comprise membership of the committee which represent major religious faiths, nonsectarian and nationality agencies. These agencies and their local community constituencies have as their primary concern, the expellee, displaced and homeless persons who are in need of care of a diversified nature and who seek asylum and resettlement in the United States. The agencies have a broad network of cooperating organizations which give such service as counseling, moral and spiritual guidance, vocational and linguistic training, and job placement. They also care for the aged, sick and handicapped and help in their adjustment in the resettlement process.

We are delighted that our Government is involved in these programs, thus expressing the humanitarian concerns so visible through the work of the voluntary agencies. The relief refugee, and rehabilitation programs of the voluntary agencies are carried on through the generosity of the American people. In the last three decades they have contributed hundreds of millions of dollars; in addition there are counterpart agencies in other countries supported by citizens of those countries.

It is the belief of the agencies that there should be established, as proposed in Amendment No. 84 to S–1248 (the State Department authorization bill) introduced jointly by Senators James B. Pearson and Edward M. Kennedy, a new Office of Humanitarian and Social Services within the Department of State headed by an Assistant Secretary of State so that higher priority can be given to assistance for refugees, migrants and victims of natural disasters.

The agencies have been seeking this reform for several years. The need has been recognized in many quarters. Establishment of an Office of Humanitarian and Social Services was recommended in 1970 by the President's Task Force on International Development (the so-called Peterson Commission) and its was proposed in 1971 as part of the International Development and Humanitarian Assistance Act recommended by the White House. The agencies feel that in 1973 the need is greater than ever, and that the time to take this action is now. Such an office, the agencies feel, not only would improve their working relationship with the Government, but could foster increased mutual support of intergovernmental and international organizations operating in the areas of refugee and migration affairs and disaster relief.

The size and nature of the problems are such that programs are carried on in partnership with the Special Assistant Secretary of State and the Office of Migration and Refuge Affairs as well as intergovernmental and international organizations such as the Intergovernmental Committee for European Migration (ICEM) and United Nations High Commissioner for Refugees (UNHCR). As recent experiences have demonstrated, with unforeseen emergency refugee developments it cannot be predicted when a new refugee problem will emerge and from what area. The refugee problem is a proliferating one generated from every part of the world, as reflected by recent movements of Asian Ugandans and peoples from the Soviet Union and Europe.

The United States has a proud tradition of providing opportunities for refugees and migrants. This humanitarian concern is a significant element in the objective of dealing with problems from which refugee situations originate, such as expulsion or oppression by their countries of origin, or political tensions, military actions and natural calamities which call for international concern.

As the House Appropriations Subcommittee on Foreign Operations deliberates regarding the fiscal year 1974 budget for migration and refugee assistance, the voluntary agencies are concerned that appropriations be adequate to meet the manifold and diverse needs. The voluntary agencies are of the firm opinion that the budget request of $8,800,000 for fiscal year 1974 be the minimum amount approved to insure programs not only of an ongoing nature but to meet new problems as they may emanate from East Europe, Africa, Asia, Near and Far East, and Latin America, so that we may be assured that any budget approved is one that will more than meet the minimal needs. It is recommended that the Appropriations Committee therefore, consider an increase in the above figures to meet new contingencies.

Such programs as the U.S. refugee programs should have adequate support as they represent the concern for the refugee who has fled his homeland and who requires maintenance and other types of assistance in connection with the resettlement in the United States. These programs have already helped meet many urgent refugee requirements such as housing, counseling, job placement, specific family needs and other related services. They symbolize continued U.S. concern and interest in refugees. In this regard, we support the continuation of the Cuban refugee program now in the Department of Health, Education, and Welfare. Another important program which requires adequate support concerns thousands of Chinese refugees who have fled to Hong Kong seeking refuge. Admission into the United States of as many as possible of these unfortunate persons would relieve the extremely crowded conditions under which they live and would also help in bringing about family reunion.

It is an established fact that migrants and refugees admitted to this country for asylum and resettlement contribute substantially to the American economy by their skills and talents as well as by the fact that many of them establish industries and also pay taxes to the Government. In the main, they make a significant contribution by their competence and by the fact that they are a self-maintaining group of people.

The voluntary agencies in their turn make their contribution in many ways. They recognize and respect the diverse ethnic and cultural backgrounds of the refugees whom they service—Armenians, Asian Ugandans, Chinese, Cubans, Czechoslovaks, Hungarians, Lithuanians, Poles, Roumanians, Russians, Sudanese, Ukranians, Yugoslavs, et cetera. They are mindful of the need to help in cultural adjustment in the long process of entering the mainstream of American life.

They also give to the refugees an understanding not only of their basic rights but of the responsibilities of citizenship. Moral support is given by the agencies to offset the reaction of the refugees to their having been uprooted and the need for adapting to the basic features of the new way of life into which they enter.

The voluntary agencies would urge consideration by Congress of appropriations of additional funds to meet the requirements of such international agencies as Intergovernmental Committee for European Migration and the United Nations High Commissioner for Refugees which are reaching out to thousands of needy people in critical situations and changing conditions. ICEM's work in transporting refugees and migrants, sometimes on very short notice, is well known. Their training of artisans and moving of skilled workers into developing countries has been of great value. Likewise, the UNHCR as an international agency has been able to respond to refugee crisis quickly and expeditiously. It has been particularly effective in refugee work in developing countries. The expulsion of the Asian Ugandan provides a telling example of the role played by both these organizations over and beyond their regular programs. It is important, and the voluntary agencies so urge, that Congress make adequate provision of funds to meet the basic requirements of both ICEM and UNHCR and support their program and projects to the fullest. In addition, they recommend that every possible consideration be given to an increase in appropriations of funds for the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) to obviate reduction of needed services. It is this cooperative relationship between the intergovernmental agencies, the international agencies, the voluntary agencies and the U.S. Government that provides the most successful method of work in the area of refugee assistance.

The voluntary agencies wish to express their conviction that migration and refugee assistance serves the best interest of the United States and helps bring about social, economic, and political stability in areas of the world where there might otherwise be unrest and possibly chaos.

Mr. Chairman, the Committee on Migration and Refugee Affairs appreciates this opportunity to present its earnest recommendation that in your consideration of appropriations for the Migration and Refugee Assistance Act adequate funds be provided for the important and effective programs covered by this act.

MEMBER AGENCIES—COMMITTEE ON MIGRATION AND REFUGEE AFFAIRS—ACVAFS

American Council for Judaism Philanthropic Fund, Inc.
American Council for Nationalities Services.
American Friends Service Committee.
American Fund for Czechoslovak Refugees, Inc.
American Jewish Joint Distribution Committee, Inc.
American National Committee To Aid Homeless Amerians.
American ORT Federation, Inc.
Assemblies of God Foreign Service Committee.
Baptist World Alliance.
CARE, Inc.
Church World Service.
Community Development Foundation, Inc.
Hadassah, the Woman's Zionist Organization of America.
International Rescue Committee, Inc.
Lutheran Immigration and Refugee Service, LCUSA.
Migration and Refugee Services, U.S. Catholic Conference.
Mizrachi Women's Organization of America, Inc.
Polish American Immigration and Relief Committee, Inc.
Salvation Army, The.
Save the Children Federation, Inc.
Tolstoy Foundation, Inc.
United HIAS Service, Inc.
United Israel Appeal, Inc.
United Lithuanian Relief Fund of America, Inc.
United Ukranian American Relief Committee, Inc.
World Relief Commission, Inc.

MEMORANDUM

SUBMITTED BY THE AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

May we, on behalf of the American Israel Public Affairs Committee, submit our views to your subcommittee with respect to American assistance to Israel.

Members of your committee are well aware of the generous assistance which

our government has provided to Israel since 1951. This aid has enabled Israel to defend herself from attack and, at the same time, to absorb the more than 1.5 million refugees who have poured into Israel seeking sanctuary from all parts of the world since she was established in 1948.

Congress has always been sympathetic to Israel's problems and may take satisfaction in the knowledge that American funds have been used effectively and prudently, and that Israel has made great strides toward economic stability.

We now respectfully urge your favorable consideration of two grants which have been approved by both Houses and which are proposed for fiscal 1974:

Fifty million dollars in security supporting assistance, which is included in the pending Mutual Development and Cooperation Act;

Thirty-six and one-half million dollars to assist in the resettlement of Soviet Jews, which is included in the State Department Authorization Act.

Our past assistance to Israel

It should be emphasized that most of the assistance provided to Israel in the past has taken the form of loans. Grant aid, which was initiated in 1951 after Israel had absorbed 600,000 refugees in her first 3 years, was gradually scaled down and ended in 1959. During this period Israel received development loans which are being repaid with interest.

Grant aid to Israel was resumed in 1971 because of Israel's huge defense burden. Since that time grant supporting assistance to Israel has totaled $100 million.

Critics of American aid to Israel frequently distort the figures and contend that Israel has received more assistance than we have rendered to the Arab States.

In fact, our aid to the Arab States has far exceeded that extended to Israel. The figures show that between 1946 and 1972 our grant aid to the Arab States totaled $2.7 billion, of which $404 million was in the form of military grants. During the same period, grant economic aid to Israel totaled $420 million. Unlike her Arab neighbors, Israel has never received grant military assistance from the United States.

Moreover, the Arab States have received vast military and economic aid from the Sovet Union. Since Czechoslovakia first sent arms to Egypt in 1955, Russia and other Communist countries have poured huge quantities of weapons into Egypt, Iraq, Syria, and seven other Arab States—conservatively estimated at more than $6 million. In addition, to our regret, England and France have also made weapons available to Arab countries and Israel has never been permitted to relax in the struggle to maintain an adequate defense deterrent.

While it is true that Israel has been able, in the last several years, to make some slight reductions in her defense expenditures, she must now take into account the fact that the United States, England, and France are expanding their arms supplies to the Arab States, particularly in the Persian Gulf. Israel must now include these countries on her strategic map because of the omnipresent danger that these new planes, tanks, and other weapons may find their way into the arsenals of Arab States on Israel's frontiers.

Israel's defense expenditures are still astronomically high—41 percent of her budget and 26 percent of her GNP in 1972. Most of this burden is carried by the Israeli taxpayer, who is among the highest taxed in the world.

An income of 20,000 Israel pounds (less than $5,000) bears a tax of 50 percent. An income of 42,000 Israel pounds (approximately $10,000) bears a tax of 63 percent.

Critics have suggested that U.S. supporting assistance to Israel could be cut because Israel's economic position has improved during the past 2 years, as evidenced by her growing dollar reserves. Such arguments overlook two crucial factors:

(1) Israel's reserves have fluctuated greatly. When President Nasser opened his war of attrition against Israel in 1969, the Bank of Israel's net reserves plummeted. They reached a low point of $338 million in 1970; they rose to $361 million in 1971; to $576 million in 1972; and to $1,070 million in the beginning of 1973. (These do not include deposits of foreign banks and foreign individuals). These reserves are still low for a country like Israel which is dependent on imports for essentials and in an exposed geopolitical situation. If war were to break out again, reserves would go down sharply because of the need to buy additional materiel, because tourism would decline and, also, because Israel would have to mobilize people from factories and fields, sharply reducing production and the capacity to export.

(2) It must also be pointed out that the 1970–72 increase in reserves to a working level was financed to a large part by borrowing. While reserves rose, Israel's external debt has risen sharply since the Israelis have been compelled to go deeply into debt to pay for both defense and resettlement of refugees. The figures show this rise.

External debt:	*Billions*
1970	$2.1
1971	2.6
1972	3.4
1973	4.1
1974 (forecast)	4.5

This means that Israel has had the highest per capita foreign currency debt in the world for more than a decade. It now stands at about $1,300 per person. This huge debt imposes a massive burden on the Israelis. Israel's external debt service cost $532 million in 1971; $687 million in 1972; for the current year it is estimated at $705 million and it is expected to rise to $800 million in 1974.

Israel still has a substantial foreign exchange deficit: $1,234 million in 1970, $1,203 million in 1971, $1,100 million in 1972. The forecast for 1973, approximately $1,360 million, for 1974, $1,300 million.

It should be noted that all U.S. supporting assistance programs for Israel are utilized to purchase goods and services exclusively in the United States. The $50 million voted last year for supporting assistance was used to purchase mainly electronic equipment, automotive equipment, containers, tractors and to finance shipping on U.S. flag vessels.

Aid for Soviet Jews

There are two Israels. There is the Israel which has defended the security of her citizens. The other is the Israel which has generously opened her door to those who came from displaced persons camps, from behind the iron curtain, from ghettos in Arab lands—from some 100 countries around the world. Many of them came impoverished for they were ravaged in war and despoiled by the governments of the countries from which they fled.

In the last two years there has been an extraordinary immigration of Jews from the Soviet Union, after more than half a century of imprisonment. While only a small proportion of those seeking to leave Russia have been granted exit visas, the fact is that some 31,652 came into Israel in 1972 and almost half that number came in the first 6 months of 1973. Israel has the ability and the will to absorb these newcomers, even as she has done in the past. She has had the support of world Jewry, which has given generously of its philanthropic funds to help Israel. But it should be recognized that the funds available have not been adequate. The fact is that many of the Jews who have come to Israel since 1948 have never been fully absorbed in the country, because Israel had to pay so dearly for her defense.

Last year the Congress voted to give economic assistance for the absorption of the refugees from the Soviet Union. It voted an authorization of $85 million for this purpose. The Appropriations Committee approved a $50 million grant and these funds are being effectively utilized to facilitate absorption through the instruments of the United Israel Appeal and the Intergovernmental Committee for European Migration. These funds are being used for care and maintenance, for transit centers, for new absorption centers and hostels, for the construction of apartments and acquisition of mobile homes, for training and retraining, for hospitals and medical services.

It should be emphasized that the contribution which the United States is making represents a small part of the total cost. The Government of Israel has estimated that the productive integration of the 35,000 Soviet immigrants into the Israel economy anticipated in the forthcoming year requires a total expenditure of some $390 million. In addition, Israel expects approximately 25,000 immigrants from other countries in 1973. Most of this is financed by the contributions of world Jewry, as well as by the sale of Israel bonds.

We trust that your subcommittee will give its approval to the new $36.5 million authorization included in the proposed State Department budget.

Over the years the Israelis have fought their own defense battles. They have carried their own defense burdens. They have not asked us for the gift of our weapons or for the gift of our manpower. They have truly served as a situation of strength and stability in the Middle East, helping to preserve vital communi-

cation lines and resources. Self-reliant, they have not only maintained their own independence but they have also contributed to the security of others in their region. Their presence has deterred aggressive elements from threatening the integrity and independence of other states.

The continued existence of a strong and economically viable Israel is a factor for peace in the Middle East, serving the national interest of the United States.

Mr. PASSMAN. The committee is adjourned.

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