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SECOND SESSION

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PART 6

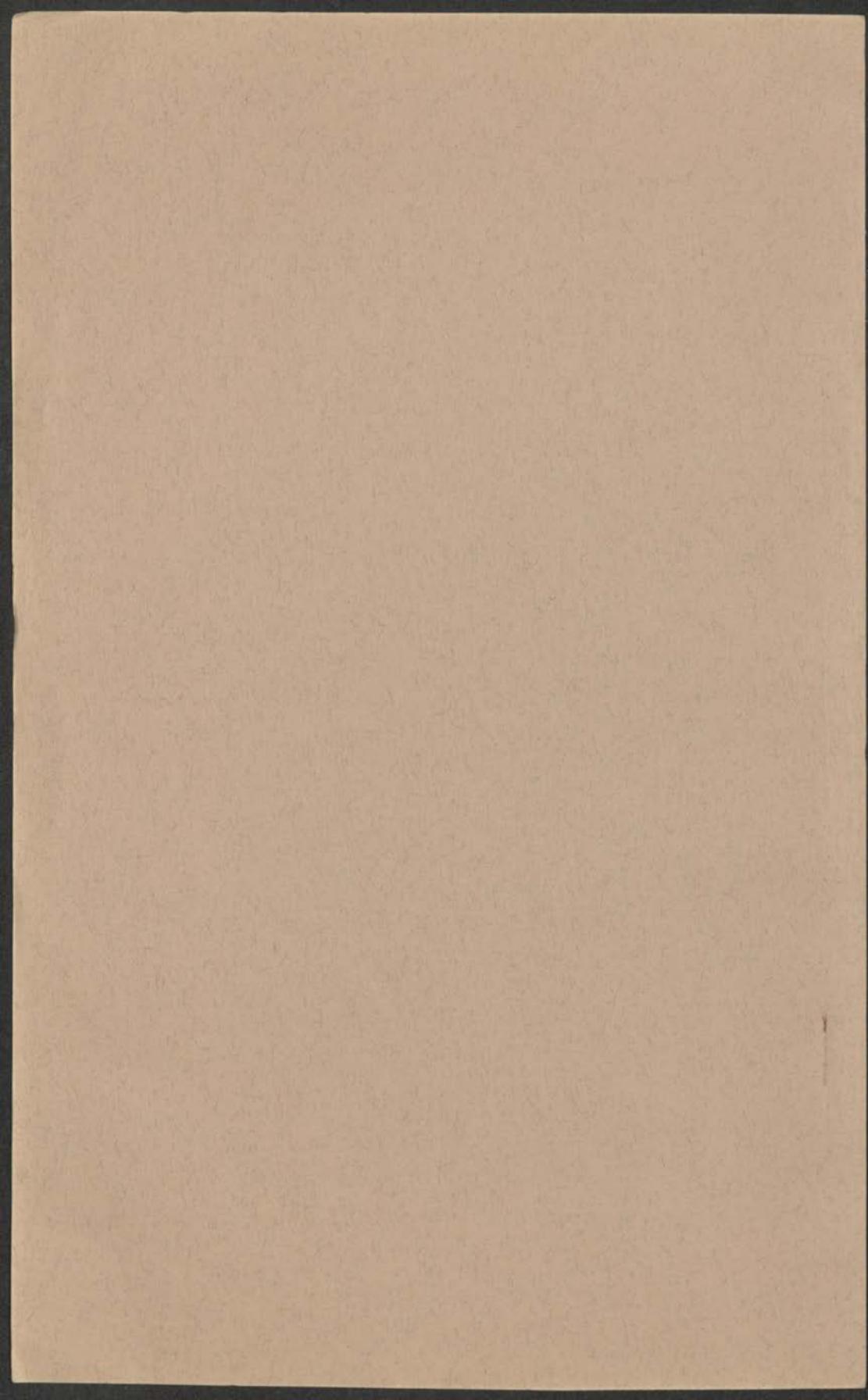
GREECE/TURKEY

PARTICIPATION IN SUPPLEMENTARY FINANCING
FACILITY, INTERNATIONAL MONETARY FUND
INDIA

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APPROPRIATIONS FOR 1979

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FACILITY, INTERNATIONAL MONETARY FUND

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FOREIGN ASSISTANCE AND RELATED AGENCIES APPROPRIATIONS FOR 1979

THURSDAY, JUNE 3, 1978.

PROPOSED BUDGET AMENDMENTS FOR GREECE AND TURKEY

WITNESSES

GEORGE S. VEST, ASSISTANT SECRETARY OF STATE FOR EUROPEAN
AFFAIRS

RAYMOND C. EWING, DIRECTOR, OFFICE OF SOUTHERN EUROPEAN
AFFAIRS, DEPARTMENT OF STATE

Mr. Long. The hearing will come to order.

Today we are conducting hearings on the proposed budget amendments for Greece, \$1,800,000 in military credit sales and Turkey, \$50 million for security assistance.

By having the hearings on the Greece, Turkey budget amendments, we will have the necessary background to evaluate the need for these funds should they be included by the Senate in our appropriation bill at a later date. Of course, we need to hold supplemental hearings because the supplemental bill will be starting its legislative process soon.

Let us first consider the budget amendments for Greece and Turkey.

I welcome the principal witnesses, George S. Vest, Assistant Secretary of State for European Affairs; Morris Draper, Director of Office of Lebanon, Jordan, Syrian Arab Republic, and Iraq Affairs.

Mr. Vest, would you proceed and put your remarks in the record and then summarize them in 5 minutes.

(Mr. Vest's prepared statement follows:)

I welcome the opportunity to be here today to review the Administration's security assistance proposals for Greece, Turkey and Cyprus for Fiscal Year 1979. These proposals embody an approach which we consider essential to serving U.S. security interests in the Eastern Mediterranean, to improving relations with Greece and Turkey, and to facilitating progress on Cyprus. The key points of the Administration's proposals to the Congress relating to the Eastern Mediterranean are (a) the repeal of existing arms restrictions against Turkey; (b) to provide military sales credits in Fiscal Year 1979 for Greece and Turkey at \$140 million and \$175 million respectively—the same levels as in Fiscal Year 1978; (c) to provide \$50 million in security supporting assistance to Turkey; and (d) a contribution of a further \$5 million of assistance to Cyprus for the relief and rehabilitation of displaced persons.

These proposals are intended to break the impasse which exists in the Eastern Mediterranean and to strengthen our bilateral relationships with two close and important allies—Greece and Turkey. They are aimed as well at strengthening NATO's southern flank, thus enhancing allied security interests in the Eastern Mediterranean. It is important at the same time to stress that this Administration remains fully committed to the search for a Cyprus solution, one of the fundamental goals of this Administration.

This being said, let me indicate in greater detail why the Administration is making these proposals and why we feel that the levels of assistance we are requesting are justified. For Turkey, we are asking the Congress to provide foreign military sales loan guarantees of \$175 million so that we can help meet the most urgent needs of the Turkish military. It is a fact that the material readiness or Turkish forces has deteriorated seriously in recent years. The \$175 million figure is the same amount as was provided to Turkey last year. We have also requested a security supporting assistance loan of \$50 million to Turkey to assist that country in resolving its present economic difficulties.

The request to lift the embargo contained in Section 620(x) of the Foreign Assistance Act is made so that we can fully cooperate with Turkey in a manner consonant with the requirements of an alliance important to our mutual security. This would facilitate joint and allied defense planning, enhance allied support for Turkey's NATO needs via third country transfers and improve standardization, and permit the delivery of items impounded since the embargo was put into force.

The Administration has decided not to go forward with a multi-year \$1 billion Defense Cooperation Agreement with Turkey and will instead negotiate new arrangements which will better serve our bilateral and NATO security interests and permit the prompt reopening of vital intelligence and other U.S. installations in Turkey. Future security assistance levels to Turkey will be determined on a year-to-year basis.

For Greece, an old and important ally, we propose to continue FMS financing for Fiscal Year 1979 at last year's level, i.e., \$140 million. This proposal reflects our desire to maintain both Greece and Turkey at last year's FMS credit levels.

I want to stress that the Administration believes that its proposals will provide a core of stability to our bilateral relations with Turkey and enable us to establish a renewed sense of trust so that we can work together to resolve important problems. It should be clear, however, that these proposals do not signal any shift in U.S. policy concerning Greek-Turkish differences. We intend that both shall remain our friends and valued allies. We strongly believe that our national interests require the restoration of sound, normalized bilateral relationships both with Turkey and with Greece.

As I stated earlier, the Administration is also requesting \$5 million in Fiscal Year 1979 security supporting assistance for Cyprus as a contribution toward the relief and rehabilitation of displaced persons there. As in the past, these funds will be proportionately distributed to the two ethnic communities on Cyprus and will be earmarked for projects such as house construction, health care, and vocational education. We believe that these new funds will be effectively utilized by Cypriot authorities for worthwhile refugee programs and will underscore our continuing concern for the people of Cyprus and our strong interests in promoting negotiation of a just and lasting settlement on the island.

A NEW U.S. APPROACH TO THE EASTERN MEDITERRANEAN—ADMINISTRATION PROPOSALS FOR GREECE/TURKEY/CYPRUS

The Administration's proposals concerning the Eastern Mediterranean are designed to break the impasse which is frustrating progress on the Cyprus problem; straining relations with two valued allies, Greece and Turkey; and contributing to the serious deterioration of United States and NATO security interests in the Eastern Mediterranean.

A critical element of the Administration's program is the request to the Congress to repeal the Turkish arms embargo, which was enacted by the Congress in late 1974 in response to Turkish use of American weapons on Cyprus. The Administration's program consists of the following elements:

- (a) Provision of \$175 million in foreign military sales loan guarantees for FY 1979 to Turkey to meet the most urgent needs of the Turkish military. This is the same amount of military credits provided to Turkey in 1978.
- (b) Provision of \$140 million in foreign military sales loan guarantees for FY 1979 to Greece, the same amount as last year.
- (c) Provision of a \$50 million security supporting assistance loan to Turkey as a means of demonstrating our willingness to contribute to a resolution of Turkey's economic difficulties.
- (d) Contribution of a further \$5 million of assistance to Cyprus for the relief and rehabilitation of displaced persons. Since 1974, the United States

has contributed \$87.5 million for Cyprus relief and over \$9 million annually to support U.N. peacekeeping forces on the island. The Administration's proposal of \$5 million has been increased to \$15 million by both the House of Representatives and the Senate Foreign Relations Committee.

(e) Repeal of all remaining portions of the 1975 arms embargo on Turkey still in force. This would (1) permit the delivery of grant-military assistance items impounded when the arms embargo went into effect in 1975; (2) allow transfers by third countries to Turkey of U.S. licensed and produced military equipment; and (3) make possible Turkish purchases of military goods and services through U.S. Government channels.

The proposals were favorably reported by the House International Relations committee on May 3. The Committee added to the proposal an amendment to the Foreign Assistance Act stating U.S. policy objectives on Cyprus, requirements for requesting security assistance to Greece and Turkey, and a requirement to provide the Congress with periodic reports on progress toward a Cyprus settlement. The Committee also voted to provide \$35 million in grant aid under the Military Assistance Program for Greece.

On May 11, the Senate Foreign Relations Committee defeated the proposal to repeal the embargo but acted favorably on the remainder of the program. The Administration intends to pursue the question of the embargo on the Senate floor.

The Administration has decided not to go forward with a multi-year, \$1 billion defense cooperation agreement with Turkey, and will instead negotiate new arrangements which will better serve our bilateral and NATO security interests and permit the prompt re-opening of vital intelligence and other U.S. installations in Turkey. Future security assistance levels to Turkey will be determined on a year-to-year basis.

For many the most controversial element in the Administration's package is repeal of the Turkish arms embargo. The embargo was enacted by the Congress in late 1974 in response to Turkish use of American weapons in Cyprus. As Secretary Vance told the House International Relations Committee on April 6, the enactment of the embargo was appropriate as confirmation of the important principle that the United States will not condone any unintended use of military equipment supplied by this country.

Now the time has come to look forward rather than backward. The Administration believes that continued maintenance of the embargo is an obstacle to the search for an equitable, lasting solution to the Cyprus problem and that meaningful negotiations will prove impossible if it continues in force. On the island, a stalemate has developed, and a very real danger exists that positions will become even more rigid as time passes. This stalemate is also an impediment to good relations between Greece and Turkey.

Furthermore, the embargo so poisons our relations with Turkey as to put this relationship at serious risk. This, of course, endangers the security of the Atlantic Alliance and the entire Eastern Mediterranean region.

We believe the Administration's program is balanced and fair and over the long run will lead to an amelioration and strengthening of U.S. relations throughout the area. We are not choosing sides between Greece and Turkey. They are both friends and valued allies. Our program will encourage a stable Turkey firmly aligned with the West and having close relations with the United States. We believe this is clearly in the interests of all of us, including Greece and Cyprus. We are also convinced that for these reasons our program offers the best hope for creating a new and improved atmosphere for solving the difficult problems plaguing the area.

Finally, the program should not be read as any lessening of the American commitment to a Cyprus solution. From its first days, the Administration has worked intensively toward a negotiated settlement; this determination has not flagged. The Turkish side has recently outlined to Secretary General Waldheim constitutional and territorial proposals it believes could serve as an appropriate basis for resuming serious Cyprus negotiations. The Turks have stated that these are opening positions and that they intend to demonstrate flexibility once the intercommunal negotiations begin again. The Secretary General has discussed these proposals with the parties on Cyprus and is carefully studying how best to promote negotiations leading to a just solution. We stand ready, if requested, to assist the Secretary General move these negotiations forward.

GREECE AND TURKEY: IMPORTANT PARTNERS IN NATO

NATO collective security interests are being undermined by the continuing instability and deterioration of defense capabilities on the southeastern flank. The unsettled Cyprus problem, disputes over the Aegean between Greece and Turkey, and Congressional limitations on assistance to Turkey have distracted the attention of these two NATO Allies from the common threat and have impaired their capability to carry out NATO defense responsibilities.

Close bilateral security relations with the U.S. have been the historical foundation of Greek and Turkish participation in the Alliance. These relations have been severely strained by events stemming from Cyprus and are in need of urgent repair.

Greece and Turkey each plays an essential role in the southern region, and they complement each other in the overall NATO defense posture. Just as they benefit from membership in the Alliance, both countries contribute to its overall strength through their Western political orientation, strategic geographical locations, and the forces they field.

Greece and Turkey, aligned with the West, are geographically situated in a way to discourage Warsaw Pact and Soviet aspirations toward the Mediterranean and Middle East. The Warsaw Pact cannot gain access to the Aegean without crossing Thrace. All major land, sea and air routes from the Black Sea to the Mediterranean and from the Balkans to the Persian Gulf lead across Turkey.

The Greek and Turkish Armed Forces tie down approximately twenty-six Warsaw Pact divisions plus associated air and naval units in the Caucasus, Balkans and Black Sea areas. Without having to contend with credible Greek and Turkish defenses, a significant portion of these Warsaw Pact forces could be reoriented toward other areas of NATO. The cost in money and manpower to balance them would be significant.

Greece and Turkey need each other against the common threat. One without the other would stand exposed and isolated from the rest of the Alliance. The Warsaw Pact would face the simplified task of concentrating on only one front without fear of a flank attack in its thrust toward the Aegean and Mediterranean. Without close Greek and Turkish cooperation Allied air and naval operations to counter Soviet combatants and shipping in the Aegean and Mediterranean and to control sea lines of communications from the Middle East through the Mediterranean to the Atlantic would be complicated.

Both Greece and Turkey provide important facilities to satisfy U.S. and NATO requirements for forward basing, support of the U.S. Sixth Fleet and other U.S. military activities, and intelligence collection.

Under present circumstances it would be difficult for Greece and Turkey to carry out NATO wartime assignments effectively.

Greece withdrew its forces from the NATO integrated military command structure in 1974. This status is still the same, although the future Greek military role in the Alliance is now being discussed between Greece and NATO. In the meantime, vital command and control arrangements and other necessary coordination requirements are in disarray.

While Turkey remains fully integrated within NATO, a combination of severe economic problems and the U.S. arms embargo has resulted in a significant reduction in the capability of the Turkish Armed Forces. Most equipment in the Turkish armed forces is of U.S. origin and most is quite old. The effect of the U.S. arms embargo in 1975 and continuing restrictions since then has been to stop almost completely a modest modernization program within the Turkish armed forces and to prevent the Turks from maintaining aging equipment in working order. Cannibalization to keep some major weapons systems in operation has become widespread, particularly in the Turkish Air Force. Maintenance difficulties have become massive and crew training has suffered.

Repeal of Section 620(x) of the Foreign Assistance Act, thereby lifting remaining restrictions on security assistance for Turkey, will not be a panacea for all the problems of Turkish armed forces. However, it will be a first step toward halting galloping obsolescence and toward restoring a coherent long-range modernization program.

Most important, elimination of the last vestiges of the embargo will permit Turkey and the U.S. to work toward the repair of their bilateral security relations and thus strengthen Turkey's commitment to the NATO Alliance.

A healthy relationship between the U.S. and Turkey and the U.S. and Greece is essential to confidence in the security of the NATO southern flank and the security

of the eastern Mediterranean. If these relationships can be restored and reinforced, they will serve as a basis for increased cooperation between Greece and Turkey as well.

U.S. MILITARY FACILITIES IN TURKEY AND GREECE

TURKEY

The U.S. maintains seven major installations and twenty-one secondary military facilities in Turkey. About 5,000 U.S. military personnel are accompanied by 4,500 dependents.

Two of the seven major installations (Incirlik Air Base and Ankara Air Station) and all secondary facilities are in direct support of the NATO mission and are in full operation. They provide:

Forward basing of USAF tactical fighter aircraft in support of NATO defense plans. Accommodations are also maintained for wartime augmentation by reinforcement aircraft and NATO strategic reserve forces.

Peacetime training. Konya Range is one of the very few air-to-ground firing ranges east of Spain which is available and adequate for regular use by theater tactical air forces.

Terminal support for intertheater staging of strategic airlift aircraft, including the only U.S. owned and controlled major aircraft refueling facility in the eastern Mediterranean area.

Naval depot services and stocks for the replenishment, refueling, and aviation POL resupply for units of the U.S. Sixth Fleet. Twenty percent of Fleet fuel assets in the Mediterranean are stored in Turkey.

Major contingency storage of war reserve materials, munitions, and petroleum supplies for use by the U.S. Forces.

Communications in support of logistics requirements, intelligence, and command and control of U.S. and other NATO forces in Southern Europe and the Mediterranean.

In reaction to the 1975 arms embargo, Turkey suspended U.S. operations at the other five major installations. One of these is a long range navigation station (Kargaburum) and the other four are used for intelligence collection (Sinop, Diyarbakir, Belbasi, and Karamursel). Karamursel is scheduled for closure in 1978 as part of a consolidation program not associated with the current suspension.

The suspension of U.S. operations in Turkey has degraded our capability to collect information on Soviet weapon systems technology, research, training, and operations.

Valuable data has been lost on Soviet space, missile, and military systems development and strategic nuclear activities, thereby reducing our level of confidence in our knowledge of these subjects.

Continued loss of information which can be collected from sites now in Turkey will hamper our ability to develop countermeasures to Soviet weapon systems under development and could allow these systems to reach an advance stage without our having a complete understanding of their potential threat.

Certain needed information can be collected only from Turkey. Therefore, all present losses could not be recovered simply by relocating the facilities elsewhere. In any event, relocation to recover partially the capability represented by US intelligence installations in Turkey would cost a significant amount of time and money.

GREECE

There are four major US military installations (Hellenikon Air Base, Nea Makri Naval Communications Station, Iraklion Air Station and Naval Detachment Souda) and twelve secondary facilities in Greece. About 4,000 US military personnel are accompanied by about the same number of dependents.

Although they do not duplicate those in Turkey, US installations in Greece serve similar missions: preparation for wartime beddown of forces, training, strategic airlift, naval support, storage of POL and war reserve materiel and munitions, communications, and intelligence. Also, rotational USAF and Navy aircraft use bases in Greece to carry out airborne reconnaissance and maritime patrol operations in the eastern Mediterranean.

A number of US Navy destroyers were formerly homeported in Greece. However, in response to Greek desires, the US terminated this program in 1975.

TURKEY: AN IMPORTANT PARTNER IN NATO

Turkey contributes to NATO's strength through its strategic geographical location, its forces, and its Western orientation.

Turkey's geographical location is a key element in discouraging Warsaw Pact and Soviet aspirations toward the Mediterranean and Middle East. Major land, sea, and air routes from the Soviet and Bulgarian Black Sea areas to the Mediterranean lead across Turkey.

Turkey has the largest standing army in NATO—approximately 480,000. Along with the Greek Armed Forces, Turkey ties down approximately 26 Warsaw Pact divisions plus associated air and naval units in the Caucasus, Balkans, and Black Sea areas. Without having to contend with credible Greek and Turkish defenses, a significant portion of these Warsaw Pact forces could be reoriented toward other areas of NATO where significant money and manpower would be required to balance them.

Turkey provides important facilities for US and NATO requirements for peacetime training, forward basing of tactical fighter aircraft, support of the Sixth Fleet, and intelligence collection.

Unlike Greece which withdrew its forces from the NATO integrated military command structure in 1974, Turkey remains fully integrated within NATO.

A combination of severe economic problems and the US arms embargo has resulted in a significant reduction in the capability of the Turkish Armed Forces. Most equipment in the Turkish armed forces is of US origin and most is quite old. The effect of the US arms embargo in 1975 and continuing restrictions has been to stop almost completely a modest modernization program within the Turkish armed forces and to prevent the Turks from maintaining aging equipment in working order. Cannibalization to keep some major weapon systems in operation has become widespread, particularly in the Turkish Air Force. Maintenance difficulties have become massive and crew training has suffered.

U.S. MILITARY FACILITIES IN TURKEY

In reaction to the 1975 arms embargo, Turkey suspended U.S. operations at five of seven major installations in July 1975. Four were used for intelligence collection (Sinop, Karamursel, Belbasi, Diyarbikir) and the fifth is a long-range navigation station (Kargaburum).

The three-year suspension of U.S. operations in Turkey has degraded our capability to collect information on Soviet weapon systems technology, research, training and operations. Specifically:

Valuable data has been lost on Soviet space, missile, and military systems development and strategic nuclear activities, thereby reducing our level of confidence in our knowledge of these subjects.

Continued loss of information which can be collected from sites now in Turkey hampers our ability to develop countermeasures to Soviet weapon systems under development and could allow these systems to reach an advanced stage without our having a complete understanding of their potential threat.

Certain needed information can be collected only from Turkey. Therefore, all present losses could not be recovered simply by relocating the facilities elsewhere. In any event, relocation to recover partially the capability represented by U.S. intelligence installations in Turkey involves a significant amount of time and money.

The Government of Turkey has informed us that the lifting of the embargo would lead to the reopening of these installations. We intend to work out shortly an interim arrangement followed by negotiations for a permanent basis for operation of these facilities. If necessary, we will also explore with the Government of Turkey immediate reopening upon repeal of the embargo on an interim basis even if new arrangements have not yet fully been worked out.

Two major installations (Incirlik Air Base and Ankara Air Station) are in full operation in direct support of the NATO mission. They provide:

Forward basing of USAF tactical fighter aircraft in support of NATO defense plans. Accommodations are also maintained for wartime augmentation by reinforcement aircraft and NATO strategic reserve forces.

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Major contingency storage of war reserve materials, munitions, and petroleum supplies for use by the U.S. Forces.

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THE CYPRUS PROBLEM: NEW HOPE FOR A SOLUTION

INTRODUCTION

When Cyprus gained independence from Britain in 1960, a centralized government was established with checks and balances to protect the Greek-Cypriot majority and the Turkish-Cypriot minority. Cypriot Archbishop Makarios was elected President, and the leader of the Turkish-Cypriot community was chosen as Vice President. Greece, Turkey and the United Kingdom guaranteed the maintenance of this arrangement.

Strains between the Greek and Turkish communities developed immediately after independence. Violence erupted in 1963-64, 1967 and again in 1974. A UN peacekeeping force was introduced on Cyprus in 1967, and under UN auspices talks between Greek-Cypriot and Turkish-Cypriot community leaders were undertaken.

In 1977 the two communities agreed, for the first time, on principles under which a new government might be organized. Both the Greek-Cypriots and the Turkish-Cypriots accepted the idea of two ethnic zones on the island with some kind of central government uniting them. Specific details as to which activities were to be handled in the zones and which at the federal level were not resolved.

The United States played an important role in encouraging the two sides to reach this agreement in principle. It remains an important objective of U.S. policy to insure that follow-on negotiations successfully resolve these fundamental constitutional issues as well as the territorial question of where the dividing line between the two zones shall be established.

1974 CRISIS AND ARMS EMBARGO

The present U.S. arms embargo on Turkey stems from the 1974 crisis. In July, 1974, elements of the Greek Cypriot national guard, supported by the Greek military junta in Athens, deposed President Makarios. In his place, they installed a Greek Cypriot extremist known to be fiercely anti-Turkish and anxious to unite Cyprus with Greece. Five days later the Turkish Government, claiming it was acting under the 1960 guarantees, landed military forces on the northern coast of Cyprus to protect the Turkish Cypriot population and prevent union with Greece.

Shortly thereafter, the coup on Cyprus collapsed, a cease-fire was achieved, and the legitimate government was restored. The Turkish troops did not leave Cyprus, however, and in August the Turkish Government landed additional forces, taking about 36 percent of the island. These events resulted in bloodshed and displaced a large number of persons. In 1975, a separate Turkish-Cypriot administration was established in the northern part of Cyprus. In succeeding months, Turkish Cypriots moved north and Greek Cypriots moved south to join their ethnic communities. It was in reaction to the second Turkish invasion that the U.S. arms embargo was imposed.

NEGOTIATIONS BEGIN

As a result of diplomatic pressure by the U.S. and other nations, intercommunal negotiations were resumed in 1975 under the aegis of UN Secretary General Waldheim. Some progress was made towards resolving humanitarian problems resulting from the 1974 fighting, but through 1976 the two sides remained deadlocked on the fundamental problems of the structure and functions of a future government and the future geographic division of the island.

Early in 1977, however, President Makarios and Turkish Cypriot leader Denktash met personally under the aegis of Secretary Waldheim and agreed on a set of principles that would constitute a framework for a comprehensive Cyprus settlement. Cyprus was to be a sovereign, independent, bizonal, bicomunal federal republic; the Turkish Cypriots would withdraw from an unspecified portion of the territory they occupy; and the basic rights of freedom of movement, settlement and property ownership would be respected with certain conditions.

TURKISH-CYPRIOI PROPOSALS

When Turkish Prime Minister Ecevit assumed office in January 1978, chances for a settlement improved. Ecevit's predecessors had all ruled with coalitions which made concessions politically difficult, whereas Ecevit commands an actual majority. Ecevit has declared that a Cyprus settlement is in Turkey's own best interest, and a matter of high priority for his government. Turkish Cypriots, with Ecevit's encouragement, submitted fresh constitutional and territorial proposals.

The Turkish Cypriots have amplified the latest proposals to include offers—

That the Turkish Government would make further troop reductions as the intercommunal negotiations progress;

That some 30,000 to 35,000 Greek-Cypriots could commence returning to their homes and businesses in the city of Varosha as the negotiations progress;

That the Turkish-Cypriots are prepared to discuss the reopening of Nicosia airport for civilian traffic, and to explore the possibility of joint economic ventures between Greek and Turkish Cypriots.

The Greek Cypriots have stated that these proposals are unacceptable as a basis for resuming negotiations, and they have maintained this position despite subsequent assurances that the Turkish Cypriot side is prepared to be flexible and forthcoming as soon as the two parties are back at the table.

The Turkish Cypriot proposals appear to represent a real advance over the positions assumed by Turkish Cypriot negotiators in previous rounds of talks. The constitutional proposal is substantially more developed and the Turkish Cypriots have for the first time clearly agreed to discuss territorial changes. These proposals plus the more favorable political environment in Turkey make this an important and hopeful movement in the search for a solution in Cyprus.

THE RETURN OF GREEK CYPRIOT REFUGEES TO VAROSHA

Recent declarations by the Turkish Cypriots have moved the problem of resettling a sizable number of Greek Cypriots in the important seaside town of Varosha closer to solution.

Prior to the 1974 hostilities in Cyprus, Varosha (New Famagusta) was a flourishing and prosperous Greek Cypriot resort center of some 40,000 full-time inhabitants, not unlike a small-scale Miami Beach. In August 1974 the population of Varosha fled to the south to escape advancing Turkish forces. Rather than being opened to Turkish or Turkish Cypriot settlement, as were other abandoned Greek Cypriot communities, Varosha remained sealed off under the direct control of the Turkish army.

Varosha is now a ghost town. Yet it is perhaps the single most significant piece of territory in dispute between the Greek and Turkish Cypriots. For the former, the regaining of a major Greek Cypriot town of substantial economic importance has become a *sine qua non* of a settlement. For the latter, Varosha is of crucial significance because of its value to the Greek side and on account of its proximity to Famagusta Harbor, the only deep-water port in the Turkish Cypriot zone.

Varosha has now become a key element in efforts to resume the Cyprus intercommunal negotiations. The proposals submitted by the Turkish Cypriots to Secretary General Waldheim on April 13 included a separate section on Varosha, which provided for the return of some Greek Cypriot inhabitant subject to the laws and regulations of the Turkish Cypriot administration. This latter condition was rejected by the Greek Cypriots. The Turkish Cypriots have now clarified and elaborated on their proposal: They have specified that up to 35,000 Greek Cypriots will be able to return to Varosha; they have conceded that this return need not await conclusion of a settlement but can commence as soon as negotiations are resumed; and they have given assurances that the future political framework of Varosha is open to negotiation, thereby admitting the possibility of a revision to Greek Cypriot control.

These are welcome clarifications. Nevertheless, we understand why Greek Cypriots may well be reluctant to return to Varosha while negotiations are underway, should this mean they will be subject to Turkish Cypriot jurisdiction.

A practical solution would be for the United Nations to assume an interim role in the administration of Varosha, pending arrangements to be worked out in a final settlement. Secretary General Waldheim has tentatively endorsed this approach, noting in his May 31 report on the Cyprus question that, with reference to the status of Varosha, "it would seem natural to envisage United Nations assistance in this connection." Furthermore, the Turkish side has indicated that in the context of a resumption of intercommunal talks it would accept an interim United Nations role in Varosha to facilitate the return of the Greek Cypriot inhabitants.

Progress on the Varosha issue now seems possible. Such progress will be important not only for itself, but also because it could be instrumental in moving towards a resumption of full negotiations.

Mr. VEST. All right, sir.

The statement is there for the record.

It is a pleasure to be here.

I would only like to say that you have stated what we are talking about here. We have come to the conclusion to advance the proposals we have simply because we think they do best embody what we are trying to do to advance U.S. security interests in the Eastern Mediterranean, to improve relations with both Greece and Turkey, to facilitate progress on Cyprus, and to move us on in this particular area.

With that, sir, I would be ready to go straight to questions, if you would like, or answer anything you wish, of course.

Mr. LONG. Has Greece returned to full participation in the NATO military structure?

Mr. VEST. No, sir, discussion is going on at the present time between the Greek armed forces and the military-technical leaders of the NATO side. Those discussions are still going on. We think progress has been made, and we are concerned to keep it going.

Mr. LONG. Will these funds be used totally to help modernize the Greek armed forces?

Mr. VEST. Yes.

Mr. LONG. So Greece can play a more effective role in NATO.

Mr. VEST. No question they will.

As far as we can see, all funds will be used solely for the modernization of the forces in accordance with NATO force modernization goals.

Mr. LONG. Is this something new, to vote credit sales to a country before it has come into NATO?

Mr. VEST. Sir, I would describe that Greece is in an in-between situation. It is in NATO. It is a NATO member, and its facilities continue to be used for NATO purposes and by us, and therefore we think it is a perfectly reasonable thing to continue the relationship and to continue to develop it.

Mr. LONG. You say Greece is in NATO?

Mr. VEST. Yes, sir. Greece is a member of the alliance.

Mr. LONG. Yes.

Mr. VEST. Greece is not part of the integrated military structure. As such, the discussions are underway to resume that integrated military relationship, but the forces, the facilities there have continued to be made available to the U.S. throughout this period.

Mr. LONG. I am a little bit baffled. I suppose the administration is equally baffled.

Is that the story?

Mr. VEST. The answer is this: It is a transitory period.

Mr. LONG. Yes?

Mr. VEST. And they did withdraw from the NATO integrated structure, but when they did so, they left us the continued use of the facilities and bases which are in Greece. We have been able to carry out our particular activities in support of NATO from there.

Mr. LONG. Right.

Mr. VEST. And there are discussions to move back toward a relationship.

Mr. LONG. So looking at it very crudely we are paying rent for the bases until we can get them, hopefully into full participation.

Is that about it?

Mr. VEST. We have never described it that way.

Mr. YATES. Mr. Chairman, will you yield for a question?

Mr. LONG. I will be glad to yield.

Mr. YATES. When did Greece withdraw from the integrated military structure, and will you define what you mean by "integrated military structure"?

Mr. VEST. This was 1974, and in withdrawing from the NATO integrated military structure, that means there are a whole series of activities which are under the absolute commitment to the Supreme Allied Commander at NATO military headquarters in SHAPE, Belgium. The Greeks put their forces under national control, and their activities accountable only to national leaders. At the same time they did not ask us to leave. The NATO integrated structure is a system by which a whole series of activities of the NATO countries are carried out with common obligations in addition to their normal national activities.

Mr. LONG. Why should Greece have opted out at that moment? After all it was Turkey that was the country we cut off weapons aid to.

Mr. VEST. The problem had a political origin at that time. It was domestic political differences inside Greece, and in that context, they took the action.

Mr. YATES. What does that mean?

Mr. VEST. It means that they were upset at what had been done in Cyprus.

Mr. YATES. Can you tell us what that was?

Mr. VEST. In Cyprus. They were upset at the interventions in Cyprus by the Turks.

Mr. LONG. Basically, what they wanted us to do was to intervene.

Mr. VEST. That is right.

Mr. LONG. To prevent Turkey from taking over.

Mr. VEST. From taking over. They felt that the NATO allies, and we, in particular, had not acted sufficiently to keep that from happening, and this led to deep criticism inside Greece.

Mr. YATES. Was this the so-called junta government that did it?

Mr. VEST. This happened just as Prime Minister Karamanlis returned to power in Greece. There was deep criticism of NATO and of the United States. Given the internal political situation, they took that step, but they did not withdraw from the alliance. They have continued to go to all NATO meetings, and most of the obligations which they formerly had have continued to be carried out.

Mr. LONG. As I see it, they did the things that set it up for Turkey to try to take over Cyprus, but they couldn't admit that they were the ones who were at fault. So they tried to blame it on the United States basically by claiming that we could, with our 6th Fleet there, have intercepted, have prevented the Turks from doing this. Really, it is an internal political thing. They tried to put the blame on the United States instead of their own leaders, who were really the ones at fault.

Mr. VEST. It is a bit more complicated than that. I think it is worth reporting that the activities that led to the problems you are talking about were by the junta, when they were running Greece. Then came the episode involving Cyprus, and that led in part to the return of democratic government in Greece, and Prime Minister Karamanlis, and he has had to deal with the consequences of this.

Mr. LONG. Mrs. Smith?

Mrs. SMITH. What are the specifics of the administration's position on resolving the Cyprus dispute at the present time?

Mr. VEST. Let me just say our position has been that we have tried to encourage the Turkish-Cypriot leaders and the Turkish Government to come forward and be prepared to engage in meaningful negotiations. At the same time we have proposed to lift the embargo as well, since this has been a political detriment from the point of view of the Turks.

We are not a negotiator in this matter, and we are not an arbitrator, nor do we have a role, a legal role, to be the decider in this matter.

Mrs. SMITH. Is it your position that the Turks ought to be pulling out of Cyprus?

Mr. VEST. Yes, our position is simply that Cyprus should ideally recover a peaceful relationship, that there should be a negotiation which would allow a single government to cover Cyprus, that the armies should be out of there. In other words, we would like to have the Cyprus division settled, but we are not the arbiters. We do not control it.

Mr. YATES. Was your answer to Mrs. Smith's question yes then? I am not sure.

Mrs. SMITH. Thank you, my good friend. I wasn't sure whether it was yes or no.

Mr. VEST. Would we like the Turkish forces out?

Mr. YATES. Yes.

Mr. VEST. Yes, of course, but it is not as simple as to say "Get out." We have got to have a negotiation involving both parties to settle.

Mr. LONG. If the gentlelady will yield on that, if we maneuver the Turkish forces out, how on earth is that going to get Greece back into full participation in NATO, since the principal lobbying that I get from all Greeks, which I assume comes from the Greek Government, is "Don't stop the embargo on Turkey."

Mr. VEST. I am well aware that they have taken that position, but the answer is there is a problem. You have a situation in Cyprus where there is no movement going forward. There is no negotiation getting underway, and you have deep political inhibitions domestically in Turkey where we are seen as imposing and threatening the Turks by virtue of this embargo.

Mr. LONG. I don't see how this will get us back in good grace with the Turks.

Mr. VEST. No.

Mr. LONG. I can't, for the life of me, see how the termination of the embargo is going to get Greece back into full participation in NATO.

Mr. VEST. We see it in stages. We would like to put the Turks in a free position to negotiate, where they do not have the domestic political inhibition that we are seeming to be pushing them and threatening them. We want to encourage them to negotiate. We feel if we can get those negotiations going on in Cyprus, that will provide a framework which will be much more healthy between Greece and Turkey. There is no question that Greece has taken the position, as has the Greek Cypriot leaders that they would like to have the embargo continue.

However, it is our judgment if you continue the embargo, this is only an impediment to getting underway with the negotiations. If you don't get underway with the negotiations, you will never resolve the situation on the island, and so you are in a vicious circle there.

Mrs. SMITH. I have more questions.

Mr. LONG. You haven't completed your 5 minutes yet.

Mrs. SMITH. Thank you very much.

What is the current status of the Soviet relations with Turkey?

Mr. VEST. The Soviet relationship with Turkey is the same as with any other independent country. It has given some economic aid and project assistance.

Mrs. SMITH. That is my next question.

How much economic or military aid?

Mr. VEST. No military aid of any kind. I can get the figure on project assistance for you, but it is not an extraordinary activity, and Turkey's whole policy position has put it firmly in the NATO alliance, and in the western structure.

Soviet aid to Turkey, 1954-1977, is \$1.18 billion, not all disbursed.

Mrs. SMITH. Two more quick questions.

What is the current status of Turkey's balance-of-payments problems, and also I want to ask, is Turkey currently involved in any of the IMF austerity programs, and what are the specifics of this?

Mr. VEST. Yes. Turkey is having a very severe balance-of-payments problem, which has been considerably worsened during the past year. The causes have been oil prices which have gone up for everyone in the free world, economic slowdown in Western Europe, which has affected all of us as well throughout the whole western free area. These have very much adversely affected Turkey's export earnings and the remittances from Turkish workers, because as one of the major assets of Turkey had been the large number of Turkish workers which are working in Western European countries.

There has been a very conscientious and careful negotiation with the IMF, and after the change in government in January 1978 when Prime Minister Ecevit took over, the Turkish Government on March 23 signed a letter of intent to enter into a standby agreement. The work with the IMF has provided a situation for us to move ahead in relation to that.

Mrs. SMITH. Would you want to comment on your position regarding the advisability of lifting the arms embargo to Turkey?

Mr. VEST. Yes, to say that it is the most thoughtful policy, one that was deeply argued out within the administration. We want Cyprus as

a friend. We want a united Cyprus. We want Greece as a friend and we want Turkey as a friend. The choice of trying to lift the embargo was the most carefully chosen thing. We feel that in the short, medium and long term, depending on which country you are dealing with, this is the way to make progress, to resolve the Cyprus dispute, to get rid of it as an irritant, to resume our relationship with Turkey, and ultimately, to get rid of an irritant which is making a real difficulty between Greece and Turkey.

Mrs. SMITH. Thank you very much, Mr. Chairman.

Mr. YATES. Mr. Chairman, may I follow up on Mrs. Smith's question and ask why you come to that conclusion?

Mr. LONG. We are calling on you next, Mr. Yates. You will get your 5 minutes next.

Let me just interpose the point that this business of trying to get back into Greece's full, good graces by resuming shipments to Turkey, cutting off the embargo, sounds to me like the same kind of overt Orwellian reason that the administration advanced for the recent weapons sales to the Middle East, weapons for peace.

I just don't see how you can do it. I hear what you say, but I don't get the logic.

Mr. VEST. For us it is obviously not short term. It is long term.

Mr. LONG. What is that?

Mr. VEST. It is longer term. We feel if we can begin the progress to straighten out the Cyprus situation, it will provide a healthier relationship between Greece and Turkey and make it an easier relationship between us and Greece.

Mr. LONG. I hear what you say, but I don't get the logic.

Mr. Yates is recognized.

Mr. YATES. How do you establish the principal premise for that conclusion? How do you settle the peace in Cyprus?

Mr. VEST. You have had an off and on situation for a number of years in which either one side or the other would not negotiate. We feel that we are reaching a situation now where there is increasing desire on both sides to do something.

Now at the present time the Cypriot leaders are not prepared to go ahead with talks.

Mr. YATES. Why?

Mr. VEST. Because they feel that if they should go ahead with the talks, as I understand it, this would make it look as if things are going well, and would encourage the lifting of the embargo, and they do not wish the embargo lifted. They wish to proceed under the situation where they feel they have pressure on the Turks.

Mr. YATES. Why do they not wish to see the embargo lifted? Is it purely psychological?

Mr. VEST. It is a deep emotional feeling.

Mr. YATES. Emotional?

Mr. VEST. A deep emotional feeling.

Mr. YATES. And it is psychological. We lifted the embargo last year, didn't we, in the amount of \$175 million?

Mr. VEST. That is correct, but, remember, when we talk about lifting the embargo, there is another factor. That takes care of the amount that we are talking about, but in addition, the effect of that embargo is twofold. In addition to the psychological one on Turkey domestically,

in domestic politics, you have a very large effect, and that is most of our NATO allies, well, that any of our NATO allies who might be inclined to provide spares, follow up, subsidiary material, equipment, anything which has U.S. components or U.S. parts, they cannot sell or pass on that equipment to Turkey.

Mr. YATES. You mean the embargo applies not only with respect to the United States, but to all of our allies as well?

Mr. VEST. If they begin to get U.S. origin equipment, it is counted within that \$175 million.

Mr. YATES. What about the question of the effect of lifting the embargo? The premise upon which the embargo is founded is that Turkey's use of military weapons to invade Cyprus was illegal.

If the embargo is lifted, will that give validity to the so-called Turkish invasion?

Mr. VEST. We don't see it that way?

Mr. YATES. Do the Greeks see it that way?

Mr. VEST. The Greeks make that complaint. I think in all clarity, though, if you are talking about the U.S. equipment for purposes other than that, which was given, which is NATO purposes, or whatever else may be when we put a limitation on it, there is a wide range of comment on the fact that Israel used U.S. equipment for purposes not originally intended when they went into Lebanon.

Mr. YATES. Israel had the basis of a clause of self-defense which is permitted under the purchase agreement.

Mr. VEST. Under the situation involving the situation in Cyprus, the Turks would have said the same thing, that they were defending their own fellow Turkish Cypriots against a situation inside Cyprus.

I am not saying what is right or wrong, sir. I am only saying that there is a large discussion that runs both ways, and the point is we put on the embargo. We, I think, made an object lesson that no country would ignore, that when you take U.S. arms and use them for reasons which we did not authorize, you face a penalty.

We think we have made the object lesson, and we feel it is now time to try to follow our additional objective, which is to move on and make some progress on Cyprus.

Mr. YATES. You made reference to our policies in the Middle East. The so-called package had been justified in measure as being an even-handed approach.

Is this justified in the same measure, this Greek-Turkish doctrine that you propose today? Is that justified on the same basis?

Mr. VEST. As far as we are concerned, we think what we are proposing for Greece, Turkey and Cyprus is evenhanded.

Mr. YATES. It is evenhanded? In the case of the Middle East you said the U.S. would not give arms to any one of the countries without giving it to all of them. Is the same thing true with respect to Greece and Turkey?

Mr. VEST. Without wishing to make any parallel to the Middle East, because I have not worked in that area and I am not responsible for it, our objective here—

Mr. YATES. But you read the cables.

Mr. VEST. Those that come my way, sir.

Mr. YATES. All right.

Mr. VEST. I would like to make it clear that in this one we have tried to be sufficiently evenhanded to show to the Greeks and Turks we are trying to meet the interests and concerns on all sides, and for the Cypriots as well, and that is what we are doing with this legislation.

Mr. YATES. Then suppose Congress doesn't go along with the Administration request and does not lift the embargo for Turkey? Will you nevertheless provide FMS and the other assistance to Greece?

Mr. VEST. I am under the firmest assumption that if the section involving lifting the embargo does not go through, we will retain all the other matters that we have recommended for Greece, Turkey and Cyprus.

Mr. YATES. It is not presented as a package as was the Middle East arms sale.

Mr. VEST. No, sir.

Mr. YATES. It is not.

Mr. VEST. It doesn't mean that we don't consider it terribly important.

Mr. YATES. Oh, we all consider it terribly important.

Mr. VEST. That is right.

Mr. YATES. We have these very difficult, complex dilemmas.

Mr. VEST. Yes.

Mr. YATES. In various parts of the world there are problems that we would like to have resolved. The question is how they are best resolved.

Mr. VEST. Surely.

Mr. YATES. And you have advanced the proposition that you presented this morning of the Administration's proposal. Just as I differed with the Administration on the Middle East I am inclined to differ with the Administration on this one. Nevertheless, I will be glad to consider your proposal.

Mr. VEST. If I could only make the comment, there is a bottom line in all of this, and that is how will we make progress in resolving the differences that now exist on the island of Cyprus.

Our position is that over the last three years we have seen that the effect of the embargo is to absolutely set in concrete any chance of moving.

Mr. YATES. But you don't know that if the embargo had not existed that you wouldn't have been set in concrete, either, do you?

Mr. VEST. I can never say what might have been.

Mr. YATES. That is right. As a matter of fact, the argument is made that having had the embargo, the parties weren't going to negotiate. Turkey, according to your contention, was not going to negotiate under pressure. Therefore, you remove the embargo, Turkey will negotiate, but that isn't true necessarily, is it?

Mr. VEST. I think there is a perfectly good reason, sir, to say yes. I think that the statements that Prime Minister Ecevit has made, that Denktash, who is the leader of the Turkish Cypriot group, the extensive statements he has put out, the kind of statements that President Ecevit was willing to make before the National Press Club here about the desire of the Turkish side to negotiate does speak for itself.

I think it does mean that they are—

Mr. YATES. With the chairman's permission, I would like you to put those statements into the record as a supplement to your statement.

Mr. VEST. Yes, sir, I will be delighted.

Mr. LONG. Without objection, it is so ordered.

[The information follows:]

PRIME MINISTER BULENT ECEVIT OF TURKEY STATEMENT TO THE PRESS

It is a great honor and a pleasure for me to have this opportunity of addressing you. We have had a very useful and lively meeting on the occasion of the NATO Council Meeting in Washington. Every important issue was discussed in a free way in the true spirit of democracy, and President Carter's press conference following the NATO meeting has been very encouraging for me because he has stressed the importance of lifting the embargo that has been impairing Turkish/American relations, as well as Turkey's defense and possibilities of contribution to collective defense. He stressed this point in a very explicit and convincing manner.

I would like to take this opportunity to thank him publicly for his remarks yesterday.

We attach great importance to Turkish/American relations, which have remained stagnant in recent years and which we would very much like to revitalize not only in the interest of both our countries, but also in the interest of world peace as a whole, because I believe that the continuation of a fruitful cooperation between Turkey and the United States is essential to maintain the delicate balance on which detente is based.

As a result of the armaments embargo, which has been in effect for over three years, the credibility as well as the deterrence of NATO has been seriously impaired in a most important strategic and most important part of the world, and a power vacuum has to a large extent emerged, which is very dangerous even in a time of detente, because after all, we are still at a stage in human history where detente and peace is based on a balance of deterrence rather than on higher or loftier balances.

There may be no imminent dangers in the world today. Turkey may not be facing urgent dangers these days and in the foreseeable future, but when a serious unbalance occurs, it may by itself be a cause of danger for the world.

Regarding relations between Turkey and the United States, the embargo's adverse effects have been two-fold, not only in the way of reducing our possibilities of cooperation with our ally and friend, with the United States, not only because it has materially reduced the defensive capability of Turkey, but the adverse moral effects of the embargo on our relationship has been even greater, although we have done everything to see to it that the public reaction in Turkey as a result of the embargo should not be emotionalized, and we have been able to see to it that it has not been emotionalized, and on my party, even when in opposition until the beginning of this year, I have exerted great pressures to insure that it would not be emotionalized, so that feelings do not get out of control, because, fortunately, in a way, feelings still play an important role in the world even in international relations.

The American embargo has also damaged our economy. We have been passing during the last few years through the worst economic crisis of our republican history. It would not be fair to say that the embargo has been exclusively responsible for it, but it has been partially responsible for it. Turkey in any case had been carrying an unfair degree of burden of responsibility for NATO over the years. We failed to realize for a long time that defense and economy are indivisible. We have overdone, perhaps, our defense commitments at the risk of weakening our economy, yet a defense structure built upon a weak economy is no reliable defense structure. So, we have been trying to take lessons from past mistakes and we believe that if the embargo is lifted, we shall be able and we may have a chance of establishing our bilateral relations with the United States on a sounder basis, driving lessons from past experiences.

We have had problems with the European economic community as well, of which we are an associate member. I was in Brussels before coming to Washington. I had contacts with responsible people there. We are trying to improve our relations with the European economic community on a sounder basis as well. NATO, the European economic community, are important institutional ties between Turkey and the domestic countries of the west, but our relationship with the west goes beyond that. It has in effect deeper foundations, because at the root of our ability with the west is the Turkish people's attachment to democracy, to freedom, and to human rights. I think it would be right to say that Turkey is the only develop-

ing country in the world where democracy has survived continuously since the Second World War, in spite of immense economic difficulties, and in spite of immense political and social crises.

If it were not for the Turkish people's attachment to democracy, our problems and frustrations with our friends and partners in the west would have taken Turkey much further away in other directions, but democracy in a sense is a culture, a culture based on respect for human dignity and human freedom, and it is this cultural bond that really attaches, that really brings together Turkey and the west, the democratic countries of the west. Our friends in the west have usually evaluated Turkey according to the contribution that Turkey might make to collective defense through the bravery of her people, but I think Turkey deserves to be evaluated according to other criteria as well, particularly according to the criteria of her success in democracy, because, after all, our alliance is not a mere military alliance. It is a military alliance with ulterior objectives that much transcends pure defense considerations. It is an organization. It is an alliance aiming at solidifying and spreading democracy and freedom, and Turkey is not satisfied to be considered as the armored guard, frontier guard, of an alliance, if I may say so, but she can perform a better function in this period of detente and in this rapidly changing and searching world as the frontier of democracy, if democracy continues to survive successfully in Turkey as a developing country. I am sure it may be an encouraging example for many other democratic countries as well. Yet, our continuing economic problems may put our democracy to severer tests than before. So, we would appreciate economic support from our friends, as well as military support, to be able better to serve the cause of democracy and freedom. It need not be and should not be a one way supporting aide. We know that one way aides is of transitory value. Turkey has enough economic and industrial basis to cooperate with her partners in a way that would be beneficial not only to the economy of Turkey itself, but to her partners and allies as well.

I would now like to dwell upon some of our international problems, which have become of concern for the United States as well, that is, the Cyprus issue and our problems with Greece. Until we took over governmental responsibility at the beginning of this year, the official attitude in Turkey was that Turkey's side could not and would not act under the pressure of embargo in the way of searching solutions for Cyprus on emerging problems. We changed that attitude when we took office. In fact, we have never subscribed to it even while in opposition. We said if we don't consider it a right thing to link the Cyprus issue and Turkish or Greek problems to Turkish/American relations, then we should unlink them first in our own minds and in our own actions. So, on the very first days of our taking over, we declared that we would not be waiting for the lifting of the embargo, we would not even wait for the signs of the lifting of the embargo, for taking the initiative in search for solutions to vote the Cyprus issue and to the Turkish/Greek problems. As we reached complete agreement with the Turkish Cypriot administration and with our moral backing, and with our sharing of the political responsibility, the Turkish Cypriot administration came up with complete and constructive proposals with the hope that they might provide a basis for the resumption of intercommunal talks in Cyprus. However, the Greek Cypriot administration rejected these proposals offhand and initiated a wide spread campaign in the world, particularly in the democratic countries, to minimize and to discredit the proposals of the Turkish Cypriot community, and I must say, they have been rather successful in spreading this false impression in many countries. On the other hand, again, soon after taking over, we approached Greece, inviting them to establish a dialogue at the Prime Minister's level for searching solutions to our problems of mutual concern.

After my second approach, Mr. Karamanlis kindly accepted and we made a good beginning for the dialogue in March of this year. It was a hopeful beginning and we decided to continue the dialogue, supplementing it with high-level, technical talks, and the first of such talks was scheduled to take place on the 14th of April, this year, but in the meantime, soon after the disclosure of Turkish proposals, for a solution to Cyprus, President Carter approached the Congress asking them to lift the embargo, and as soon as President Carter made an appeal, the Greek government in Athens unfortunately postponed the meeting that was scheduled to be held in Ankara. So, our dialogue was interrupted. It has fortunately been resumed. We have decided to resume it when we met again with my distinguished colleague, Mr. Karamanlis, three days earlier in Washington. I hope that it may not be interrupted again, but we have talked

about these instances to show the counterproductive effect of the embargo. Until the beginning of this year, many people did accept the counterproductivity of the embargo from another angle. They said that Turkey and the Turkish Cypriots will not make a move until the embargo is lifted. We changed this attitude this year. We made the moves before waiting for the lifting of the embargo, even before President Carter asked for the lifting of the embargo, but now the Greeks do not hope, because they are obviously more interested in seeing to it that the American pressures over Turkey continue and in seeing to it that they have their chance of what they officially call the long struggle for return to the statistical attempt in Cyprus. They seem to be more interested in this than in a federal solution.

If the intercommunal talks were to be resumed, if dialogue went on in a fruitful way, obviously, people in the United States, and also in the Congress, would be thinking that, well, the way has been open for a reproachment, we should be helping it by lifting the embargo, and I have the impression that our, and I still would like to call them sincerely friends, our friends, the Greeks do not want that to happen. Therefore, one way or the other, the American embargo has proved to be a damaging agent, not only for the Turkish/American relations and for Turkey's possibilities of contribution to western solidarity of defense, but also to the solution of the Cyprus problem and the problems between Turkey and Greece.

We believe not only in the possibility, but also in the necessity for establishing good and close relations with Greece and cooperation with Greece, we believe that our joint interests, common interests, go far deeper than the present troubles that strain the relations between the two neighboring countries, and that if we attain the right atmosphere, and if we could have the right approach, we could easily solve or transcend our existing problems.

Now, allow me to take this opportunity to tell you briefly about the nature of the Turkish Cypriot proposals for a solution to Cyprus, because, as I said earlier, the Greeks have spread the impression that they are up to nothing. For instance, the Greek Cypriot administration claims that the Turkish Cypriot proposals only involve 1 percent of land in the new geographical arrangements contemplated, whereas the Turkish proposals did not indicate any percentage at all in order to be flexible. Instead, the Turkish Cypriot administration indicated six areas in the Turkish control zone in Cyprus, six areas in all of which they are ready and willing to negotiate with the Greeks for geographical arrangements, without indicating any percentages. This was a wiser attitude and a more realistic and flexible attitude, because, after all, there is democracy in both parts of the island. To sit around the table with a clear cut proposed line would make it much more difficult for both sides to negotiate and to change that line. Apart from those six regions, the areas in which they are willing to negotiate freely with the Greeks, the land arrangements, they also proposed that the security zone extending from the east to the west on the island and comprising three percent of the territory should also be turned over to the Greeks completely, whereas it's a no man's land now, and, thirdly, they proposed that Varosha, which is economically the most important district of Cyprus, could be resettled by Greece, which meant that over 30,000 Greeks could settle there in a profitable way.

Now, I don't think it would be a wise thing, a realistic approach, to make, if I may say so, a fictitious percentage. Percentage wise, the district of Varosha may not mean anything, but economically it is perhaps worth half the island, and regarding the settlement possibilities that it provides, it could settle more than 10 percent of the island. The Turkish Cypriot administration also indicated in the words of Mr. (Danktash) himself that they are open to negotiate the political framework of Varosha when negotiations start.

Regarding the draft constitution which they propose, the Greek Cypriots have claimed that this is not a constitution for a federal state. It wouldn't be considered a constitution even for a confederal state. They said it envisages the partition of the island. Whereas, the draft constitution proposed by the Turkish Cypriots envisaged joint constitutional legislative and executive bodies composed of the two communities. They also envisage several joint federal functions, such as foreign affairs, external defense, banking, foreign exchange and monetary affairs, federal budget, customs duties and tariffs, external communications, federal health services, tourism, et cetera. Apart from that, we have encouraged the Turkish Cypriot community administration to include a project of bringing water, much needed water to Cyprus by a pipeline from Turkey, which we could undertake to construct and which would solve the water problem of the whole of

Cypriots envisaged joint constitutional legislative and executive bodies composed indicated that it would not be a difficult problem to reopen the Necosia Airport, for instance, on an interim basis if the two communities could not agree on a final formula at the present stage.

On the other hand, in spite of the fact that a new pattern has not yet taken roots in Cyprus recently, and, therefore, complete security has not been assured, we have, contrary to the impression that is widely spread in many countries, we have during the last three years withdrawn about 16,000 troops in Cyprus and we continue withdrawing as we did earlier this year, and we shall continue to withdraw them, although, of course, it would be impossible to pull them all back before the final Cyprus state takes shape, and the security of the people are insured, but Turkish troops are not in Cyprus to stay there. They are not invading troops, contrary to what many people think. They went there as a result of the obligation that Turkey had toward Cyprus as a guarantor. Together with Greece and Britain, Turkey is a guarantor under international agreements. This is a very important point from an American legal aspect as well, because there has been so much dispute about whether Turkey had the right to use certain armaments in Cyprus, but when these disputes are held, it is forgotten that Turkey in 1974 sent her troops to Cyprus under a treaty obligation. It is actually an international agreement which is registered in the United Nations.

I believe that sufficient proofs have emerged to see, to prove, that the American embargo is not good for anything. It doesn't prove to be good for Turkish/American relations, for our collective security system. It doesn't help at all Turkish/Greek relations. On the contrary, it aggravated them, and it doesn't ease the way for a solution to the Cyprus problem. Therefore, it has been very encouraging and hopeful that the President yesterday should take an open stand in ending this deadlock. It was wrong to link our relations with the United States to our problems with regional countries, and I think it is high time to unlink them here.

Thank you very much.

STATEMENT BY TURKISH CYPRIOT LEADER DENKTASH, MAY 22

I had a discussion on the question of Cyprus with the Secretary-General, H. E. Dr. Kurt Waldheim.

This meeting gave me the opportunity to reconfirm in detail the position of the Turkish Cypriot Community regarding the intercommunal talks.

This position can be summarized as follows:

The Turkish Cypriot Community believes that sustained intensive good faith negotiations between the Greek and Turkish Cypriot Communities with a view to reaching a just, lasting and mutually satisfactory settlement on Cyprus should not be delayed any longer. With this goal in mind, the Turkish Cypriot representatives presented to the Secretary-General, Dr. Kurt Waldheim, on April 13, 1978 a description of the proposals that the Turkish side is prepared to put on the table once the intercommunal talks are reconvened. These proposals, it has been stressed, represent a negotiating position that can provide a starting point for discussions. The Turkish side had made a commitment to the Secretary-General, Dr. Kurt Waldheim, to engage in negotiations with an open mind and in a spirit of conciliation and flexibility.

The Turkish side is prepared, in short, for a genuine and productive dialogue. It is the belief of the Turkish Cypriot Community that intercommunal negotiations under the auspices of the Secretary-General of the United Nations should be immediately resumed.

The Greek side will not contribute to a settlement of the Cyprus issue by refraining from negotiations when the Turkish Cypriot attitude is so conciliatory.

It is the Turkish Cypriot belief that the guidelines agreed upon by Archbishop Makarios and myself at our meeting in February 1977 constitute the essential framework for a Cyprus settlement, according to which Cyprus must be a sovereign, independent, non-aligned, bi-communal and bi-zonal federal state.

The federal structure should incorporate, as indicated in the constitutional proposals of the Turkish side, a joint constitutional legislative and executive bodies as well as such functions as foreign affairs, external defence, banking, foreign exchange and monetary affairs, federal budget, customs duties and tariffs, external communications, federal health services, tourism and information etc.

In addition to such federal governmental structure and functions, the constitution must also provide satisfactory safeguards for the rights of individual

Cypriots without infringing upon the bi-zonal and bi-communal character of the federal state envisaged.

The Turkish side is prepared to consider significant geographical re-adjustments in the light of its economic viability and security requirements which would enable a considerable number of Greek Cypriots to resettle.

It has been the longstanding position of the Turkish Government that upon conclusion of the Cyprus settlement all Turkish military forces will be withdrawn from the island, except those whose continued presence will be authorized under the terms of the settlement. This position is hereby reaffirmed. Since 1975 the Turkish Government has already withdrawn some 16,000 troops from Cyprus, and it is my understanding that it is prepared to make further such reductions as the intercommunal negotiations progress.

As further demonstration of the forthcoming approach of the Turkish side I announce that it is the Turkish Cypriot position that as negotiations progress, Greek Cypriot inhabitants of the city of Varosha may commence returning to their homes and businesses. We believe that approximately 30,000-35,000 Greek Cypriots can eventually be accommodated in Varosha under arrangements that would meet the legitimate security concerns of the Turkish Cypriot and the Greek Cypriot communities. As far as the long term status of Varosha is concerned the Turkish Cypriot side is fully prepared to discuss alternative formulae once the intercommunal talks are resumed. It has already been stressed that the future political framework of Varosha is open to negotiations. All these are envisaged in the Turkish Cypriot proposals and explained to the Secretary-General, Dr. Kurt Waldheim, on April 13, 1978.

These proposals also indicate that the freedom of movement shall be fully implemented through progressive stages to be agreed upon by both sides in a way that will ensure security, and the freedom of settlement will be enlarged in time in a way that would increase cooperation between the two national communities while at the same time preserving the basic bi-zonal and bi-communal character of the federal state.

The Turkish Cypriot side is also eager to discuss with the Greek Cypriot side other practical steps to heal the wounds of the past. Discussions could be initiated under U.N. auspices on reopening Nicosia Airport for civilian traffic providing also for initial United Nations use.

It would also be productive to discuss immediate cooperative efforts in the economic areas such as the construction of a pipeline to bring water from Turkey to Cyprus for use by both communities.

It is the Turkish Cypriot view that the resumption of negotiations on a Cyprus settlement and on related issues should not be dependent on extraneous factors but should commence immediately. The Turkish Cypriot Community stands ready to meet at any time with the Greek Cypriot Community to work in good faith to reach a settlement of the Cyprus problem.

I understand that both Mr. Kyprianou and myself will be in the U.S.A. for some time. It will be much better if instead of working with cross purposes, we would come together in a search of a solution to the benefit of both communities.

I want to reiterate what I said to the press on Friday, May 19, 1978. I am ready to meet Mr. Kyprianou, anywhere, any time and to discuss the problem with him even without any agenda.

Mr. YATES. I should like to continue this questioning. What happens in the event that the embargo is lifted to the political situation in Greece? Columnists and political commentators that I have seen and read have indicated that there is a good chance the Karamanlis government will fall, giving way to a Papandreu government.

Mr. VEST. I would say given the present majority of the Karamanlis government we do not think it will fall.

Mr. YATES. Isn't the truth of the matter, the real truth of the matter, that Turkey is regarded as more important to the NATO alliance than Greece is, and the whole purpose of this is to get Turkey back into the NATO alliance on a full cooperative basis, and if you could get Greece somehow eventually to come around that would be nice, but you want to do this notwithstanding?

Mr. VEST. Sir, I don't want to give an evasive answer on that. No, sir, I don't agree with you at all, for a very simple reason. It is all very well to say—and others have pointed this out to me and said you are really trying to favor one or the other; in this case, Turkey.

It would be all very well to see the security situation in the Eastern Mediterranean as done with Turkey. You cannot divorce the importance of both countries. It is not enough to look at one and say policy is motivated by dealing with one.

We couldn't in conscience do that because you would be setting up something with a big hole right in the middle, and that is not something that we are aiming to do at all.

We are very serious, believe me, sir, in trying to find the hard choice in a most complex and mixed up situation, which provides us progress in relation to the whole area and both countries, and it is not a choice.

Mr. LONG. I am just not smart enough to see it, how when Greece isn't anxious to cooperate when we do have an embargo against Turkey, how Greece is suddenly going to come around and be willing to participate fully when we eliminate the embargo against Turkey.

I would guess that there is going to be a great deal of fury there now.

You said Ecevit's statements indicated that if the embargo was lifted there would be a more conciliatory attitude on the part of Turkey?

Mr. VEST. No.

Mr. YATES. Is that the impression you tried to give?

Mr. VEST. I am sorry if I stated it that way that I may have given the wrong impression.

Mr. YATES. What impression did you try to give as a result of Mr. Ecevit's statements to the Press Club and the other statements?

Mr. VEST. What I wish to state is simply that Ecevit has made it very clear he wishes to get rid of the Cyprus problem and wishes to make progress on negotiations because he considers it really creates a difference between him and Greece, and this is primary from the Turkish point of view.

Now, in terms of greater freedom of action, he will have great freedom of action if he does not have the embargo hanging over him.

Mr. YATES. Why?

Mr. VEST. Because domestically it creates a very strong resentment on the part of political leaders and spokesmen inside Turkey. It is the same thing as if we were in a situation where he had a matter which we considered to be our own business, and another country took a punitive threatening action to try to force us to do something.

It does not go well in domestic politics.

Mr. YATES. So far you have talked in generalities of what Ecevit may or may not do. Do you have anything concrete to suggest?

Mr. VEST. As to what he would do?

Mr. YATES. Yes. If the embargo is lifted, is Mr. Ecevit prepared to give greater concessions to the Greeks than have been made clear so far?

Mr. VEST. I think what he has said is already in the document which you have asked be put in the record.

Mr. YATES. Yes.

Mr. VEST. Which is the National Press Club record and the Denktash statement. Both of these proposals have been put out and we will have them here for you. They say what they would be prepared to do in a constitutional sense, in a territorial sense, and in terms of movement back into the major part of Famagusta, now called Varosha. All of this is there for the record. In the meantime, Ecevit has stated publicly that he wants to get rid of the Cyprus problem. He gives it high priority on its own, but he will have a freer hand domestically, if he doesn't have this embargo hanging over him.

He has not said, "You lift the embargo for that reason." He has taken a very forthright, separate and independent statement that he wants to get rid of the Cyprus difference on its own merits.

Mr. LONG. Mr. McHugh.

Mr. McHUGH. Thank you, Mr. Chairman.

Mr. Secretary, there is a certain disadvantage in being at the end of the table.

This is a very difficult policy question. It is for me and I am sure it is for many other members. I want to be sure where the Administration places its priorities.

The Congress clearly imposed the embargo for two reasons. They have both been mentioned. One was the concern about the principle that arms given to an ally by the United States will not be used except for defensive purposes; and of course the second was to put pressure on Turkey, in the hope of promoting negotiations.

My first concern is whether the Administration places much importance upon the first reason I mentioned. We are a large supplier of arms, and sometimes we supply arms to countries that use them in ways which are not consistent with our own values.

The principle in law is there for a very important reason.

My question is whether the Administration agrees that this principle is important and therefore should be enforced?

Mr. VEST. Question one, sir, the principle. I think I addressed this in one way earlier.

Yes, we consider the principle very important. It is in legislation, and we have the greatest respect for it, and we think it is a very important principle.

Now we have had the principle demonstrated. We have showed what we mean by that particular matter. At the same time, we now have an equal thing, which the President and others have stressed as terribly important, and that is how to make progress to resolve the situation in Cyprus.

Mr. McHUGH. I understand that.

Mr. VEST. And that is why we have come to this situation.

Mr. McHUGH. I will get to that in just a minute. I want to be clear in my own mind that the Administration concedes that this is an important principle and therefore should be enforced. The argument is over how long.

Mr. VEST. That is correct.

Mr. McHUGH. How long that enforcement should prevail.

Mr. VEST. That is exactly correct.

Mr. McHUGH. I take it the Administration also agrees that in this particular circumstance Turkey did in fact use American arms?

Mr. VEST. Yes.

Mr. McHUGH. Offensively, in violation of that principle, so there is no question of fact. It is simply a question of what the policies should be in terms of enforcing the principle.

Mr. VEST. If I might make one comment, sir, you have been using the words "offensive" and "defensive." The use of the weapons was restricted for NATO purposes, and they used them for non-NATO purposes.

Mr. McHUGH. I think there is disagreement in terms of emphasis. The Administration clearly puts its emphasis on reaching a negotiated settlement, or at least on getting negotiations started.

Many Members of Congress are still concerned about the principle of law.

Let me go to point number two.

I believe it was our intent when we partially lifted the embargo to the extent of \$175 million that this would release some of the pressure on Turkey, enabling the Turkish Government to do something to promote negotiations.

Has the Turkish Government done anything in response to the partial lifting of the embargo to bring the parties closer to negotiations? If so, what?

Mr. VEST. You must remember there are two Turkish Governments we are talking about.

Mr. McHUGH. Yes, I understand.

Mr. VEST. This Turkish Government only took effect at the beginning of this year. The earlier Turkish Government, which was a coalition government made up of three parties, within the situation it was situated politically as I can recall, did very little that you can put your finger on. However, it did begin the withdrawal of troops from the Turkish portion of Cyprus, as an evidence of a desire to move on to a negotiated situation.

However, it is with the arrival of this government that we have had the decisive action taken obviously against a domestic political situation where the Prime Minister felt able to do something.

Mr. McHUGH. And you are referring to Mr. Ecevit's statement before the Press Club that he is willing to—

Mr. VEST. Before the Press Club and elsewhere. In Europe he has made public statements to the Chancellor of Germany and over national television there. He has here addressed [I believe] the Senate Foreign Relations Committee and the House International Relations Committee, where he was heavily questioned on all these matters, publicly appeared before the National Press Club, as well as attended the NATO summit. So he had very heavy exposure here, in which rather consistently I think at every step he has taken a formal position that, as a primary policy objective, he wishes to begin negotiations and get rid of the problem that is created for him and for Greece with the difference over Cyprus.

Mr. McHUGH. Are there any particular statements to which you can point that have been made by representatives of the Greek Government which would lead us to the conclusion that, despite the political problems in Greece, there would be participation by the Greek Government in negotiations if the embargo was lifted?

Mr. VEST. I think we have to clarify who is involved in the negotiations. The Greek Government is not involved in the negotiations at all.

Mr. McHUGH. Greek Cypriots?

Mr. VEST. Greek Cypriots? All right. To date President Kiprianou has indicated no willingness to enter into negotiations. At each step he has said the proposals put forward so far by Mr. Denktash and reinforced by Prime Minister Ecevit were not an adequate basis for beginning negotiations.

The Secretary General of the United Nations has referred to them as substantive and concrete, and Mr. Ecevit has repeatedly made the point that they are only an opening position, and that they are willing to be flexible and ready to have very serious negotiations on these matters, but Mr. Kiprianou, for his own reasons, has chosen not to begin discussions so far.

Mr. McHUGH. I would like to be clear in my own mind, then. Why will the Greek Cypriot position be more open to discussion with the Turks or Turk Cypriots if the embargo is lifted?

Mr. VEST. I am put in the position where I have to make judgments as to what the motivations of the Greek Cypriots, but I would say it is reasonably evident from statements they have made in one form or another that they simply do not believe that the embargo should be lifted.

They continue to wish to have pressure of that embargo, and they therefore don't wish to take any action which might add to a favorable atmosphere for lifting that embargo. They oppose the lifting of the embargo.

Mr. McHUGH. I see my time is up.

Mr. LONG. Thank you, Mr. McHugh.

I see some sense to this, if the following steps take place: One, embargo terminated; two, Turkey unilaterally withdraws from Cyprus; then three, Greece can now end its resentment against the U.S. and NATO.

Having done that, then agreement in Cyprus becomes possible, but the key to all this then, it seems to me, is whether Turkey will unilaterally withdraw from Cyprus.

Do we have any understanding that they will do that?

Mr. VEST. Sir, you have jumped each step. Let me point to the fact—

Mr. LONG. Or might?

Mr. VEST. No, sir, I can't say that automatically in a situation like that the Turks are going to withdraw.

Mr. LONG. I don't see how Cyprus will be any more disposed to agree to any solution if we resume arms shipments to Turkey than they are now. It seems to me you have got to have some agreement, some kind of an idea that with the end of this embargo Turkey says, "Okay, now our face is not on the line," if I can mix a metaphor, "and we will get out." Then you have the problem solved.

Mr. VEST. You are taking the factor which is obviously one of the points of the settlement. If there is a settlement between Greek and Turkish Cypriots, the Turks have said they will withdraw those troops, but it is part of the essence of their situation that while they have reduced the number of their forces, the withdrawal question is part of the settlement. You have several factors that have to be negotiated.

One is the constitutional relationship. Two, the territory which has to be realigned. Three, certainly the forces have to come out, and you then would have some form of bi-zonal government for the whole.

Mr. LONG. If you can't tell me that you have some assurance that Turkey will unilaterally withdraw from Cyprus on the ending of the embargo, then I feel the whole thing makes no sense at all.

Mr. VEST. If I might comment, the point of withdrawing the embargo, in addition to which I have mentioned, is simply with each of the countries to the extent that we have influence on them, we are able to try to move them along.

That is not going to be an instantaneous negotiation but a much slower one and we are trying to maintain that kind of a relationship with each of the parties. Negotiations at no time have moved instantaneously like that. We have always had to push them very, very slowly, at a very slow pace.

Mr. LONG. I can tell you one thing, I am glad I never tried to join the Foreign Service. My mind would have made sure that I would have never gotten above the first rung.

Mr. VEST. Sir, there are often days I feel the same way.

Mr. YATES. Mr. Chairman, Mr. Vest sought to draw a simile between Israel and Turkey in the use of American arms. He neglected to say, however, that in Israel's case it withdrew from Lebanon.

I don't find Turkey withdrawing from Cyprus.

Mr. VEST. That is perfectly correct, sir. They have.

Mr. YATES. Then the parallel falls, doesn't it, in that respect?

Mr. VEST. The parallel stops at that point, exactly sir.

Mr. YATES. Turkey isn't withdrawing.

Mr. VEST. Certainly.

Mr. YATES. Unlike Turkey, Israel is withdrawing.

Mr. LONG. It took a member of the committee to bring that out.

Mr. VEST. The point I make is that when that happened no one even thought of the fact and mentioned the fact that there was such an illegal use of our weaponry, that is all.

Mr. LONG. I have a number of questions I would like to ask. What type of equipment will be provided with the funds to Greece? Would you please place a full equipment list in the record?

Mr. VEST. All right, sir.

Mr. LONG. \$18 million is involved.

Mr. VEST. There will be no problem with that.

[The information follows:]

GREEK EQUIPMENT LIST FOR ADDITIONAL \$18 MILLION IN FMS CREDITS FOR FISCAL YEAR 1979

It is anticipated the Greek government would utilize an additional \$18 million in FMS credits in FY 1979 to finance additional purchases of medium-lift helicopters such as the C-47 and/or missile gunboats of the Asheville class. Such purchases would, of course, be subject to congressional approval.

Mr. LONG. What are the proposed terms of the short-term balance of payments loan?

Mr. VEST. It is to be returned over a ten-year period, with interest rates at cost of borrowing to the Treasury as of the day the loan agreement is signed.

Mr. LONG. What is that, around 7.5 percent?

Mr. EWING. I think it is something like that currently. I don't know exactly.

Mr. VEST. We will furnish that. (8.4% if loan agreement had been signed on June 16, 1978).

Mr. LONG. How is the money going to be paid back, in U.S. dollars? How do we protect it against a great rate of inflation?

Mr. EWING. Yes, it will be repaid in dollars.

Mr. LONG. In U.S. dollars?

Mr. EWING. Yes.

Mr. LONG. Why does Turkey have a current balance of payments problem?

Mr. VEST. I will just let Mr. Ewing answer that, if I may. He has worked more closely with this.

Mr. EWING. Mr. Vest touched on this before. It is a combination of a number of factors over the last several years, including the increase in oil prices that all of us have been affected by, the economic slowdown which occurred in Western Europe, and the effect that had on Turkish exports and Turkish workers particularly in Germany, and I must say the effort on the part of the Turkish Government to continue to industrialize and engage in investment activity at a very rapid rate.

Mr. LONG. So again we blame it on oil.

Mr. VEST. Not entirely on oil.

Mr. LONG. Now I see the real meaning of Dirksen's famous statement. The oil can is mightier than the sword.

Mr. YATES. He meant it for something else, Mr. Chairman.

Mr. LONG. I know he did, but like lots of statements, words have a life of their own.

What has Turkey done to correct these problems?

Mr. EWING. Particularly since the government of Prime Minister Ecevit came into office in January they have taken a number of steps to try to tighten up their budget for the current year. They devalued the Turkish lira, most recently in March, by about 23 percent, and, as has been mentioned before, they did enter into a stabilization program which has been accepted by the International Monetary Fund.

Mr. LONG. We are being asked to provide about \$1,700,000, I believe, to the International Monetary Fund for dealing with balance of payments problems. Why on earth don't they go to the International Monetary Fund for help?

Mr. EWING. Turkey has done that. It will get over the next two years approximately \$450 million, so that will be of substantial help to the Turkish economy and to the Turkish Government.

In addition, though, we feel that additional assistance from others is needed, and the amount that we have recommended to the Congress—\$50 million—we feel is appropriate.

Mr. LONG. The United States has a balance of payments deficit this year of how many billions, \$28 billion or something like that?

Mrs. SMITH. The biggest in history.

Mr. LONG. A vast sum. We are being asked to give another \$1.8 billion to the IMF to help countries that are in difficulty because of their balance of payments as a result of the oil problem very largely, and now we are told that that is not enough. We have to give additional amounts through the side door for this purpose.

Don't you think Congress has a right to be a little bit impatient with this sort of reasoning?

Mr. EWING. I would just say—

Mr. LONG. How about that, Mr. Vest?

Mr. VEST. I understand your point of view, sir.

Mr. LONG. Do you?

Mr. VEST. But I think this is justified, what we are asking for.

Mr. LONG. I am not sure then you really understand it.

Do you want to respond?

Mr. EWING. I would just add that I think that the assistance provided by the international institutions—and there has been assistance to Turkey also from the World Bank—the problems are such that additional assistance from other outside donors is needed by Turkey, and will be forthcoming from Germany, Belgium, Norway and some of the other Western European countries.

Mr. LONG. When we pass on this request in the committee for the \$1.8 billion for the IMF, I am entitled to bring up that this by no means ends the requests that are going to be made on us from countries to meet their balance of payments problems. We gave Portugal \$300 million last year.

Mr. YATES. Should the record show he is nodding his head?

Mr. VEST. Would I ever object to the chairman bringing up such a thing if he wanted to?

Mr. YATES. I doubt it.

Mr. LONG. What other donors are going to contribute funds as we are doing to help Turkey with their balance of payments problems and in what amount?

Mr. EWING. I don't know if we have a complete list, but primarily the Federal Republic of Germany, Belgium, Norway.

Mr. LONG. In addition to what they put into the International Monetary Fund, if they put anything in?

Mr. EWING. Yes, through bilateral channels, their own bilateral programs, and there are other countries that have programs in Turkey.

Mr. LONG. You will put the full list in the record?

Mr. EWING. We will give you a full list.

[The information follows:]

AID TO TURKEY

In addition to the IMF standby agreement (\$450 million over two years) and the new IBRD project credits (three project loans valued at almost \$100 million will be presented to the Board of Directors this year), Turkey will receive the following aid: Federal Republic of Germany, \$140 million in project credits and direct loans; Belgium, \$4.5 million loan on concessional terms; Norway, in the form of cancellation of \$3.25 million in outstanding debts, as well as a several million dollar credit (terms not known) for feasibility studies for projects to be undertaken in the context of an economic cooperation agreement signed in 1978; and Austria (amount not known). Several other countries still are disbursing funds on old project loans, at various terms, initiated under the OECD consortium. Canada, Italy, France, and the UK, as well as the European Investment Bank have such disbursements in the pipeline. Total economic aid extended from 1954-1977 to Turkey from the USSR and other Warsaw Pact states totalled \$1,410 million of which \$1,180 million was extended by the USSR. Not all of this has been drawn upon, however. In 1978, the USSR agreed to expand its total aid by \$650 million for a steel mill and other industrial projects.

Turkey and Libya signed an agreement on economic cooperation on June 2, 1978, which included a \$100 million program loan from Libya, rollover of certain overdue debts (oil payments), credit for 20% of Turkish oil imports from

Libya (\$350 million estimated value) and possible project loans. Other than three trade credits from the Islamic Development Bank, totalling \$36 million, we know of no other aid from the OPEC area.

Mr. LONG. So what we are really having here is sort of an unofficial International Monetary Fund supplemental?

Mrs. SMITH. Mr. Chairman, would you yield for a question?

Mr. LONG. I would be delighted to yield.

Mrs. SMITH. I would like to have for the record a breakdown of Turkey's other debts to the World Bank, to these various international agencies that owe money.

Mr. LONG. That was the next question I was planning to ask, and certainly we would like to have that.

[The information follows:]

TURKEY FOREIGN DEBT: TOTAL BY COUNTRY

1. Attached is a chart showing public or publicly guaranteed credits to Turkey from OECD members. This is not all due in 1978.

2. In commercial arrearages (\$1.9 billion estimate), companies from OECD member countries are owed \$1.3 billion, oil producers, largely Iraq, \$350 million and Eastern European states \$145 million. The largest debts owed to companies in the OCED group are to Germany (\$326 million), the United States (\$209 million), UK (\$144 million), Switzerland (\$122 million), Japan (\$107 million), Italy (\$88 million), France (\$75 million), Netherlands (\$63 million), Belgium (\$48 million), Canada (\$37 million), Austria (\$29 million), Sweden (\$22 million), and others with smaller amounts.

3. Table II attached, shows the foreign debt of Turkey. Of the \$6.1 billion short term debt, it is estimated that \$5.4 billion will fall due before 12/31/78. The government of Turkey is negotiating with commercial banks a refinancing program which would cover the \$1.9 billion convertible lira deposits, the \$386 million banker's credits, and the \$266 million overdrafts. Debt service on official and officially guaranteed debt already in arrears or falling due before June 30, 1979 to OECD countries (for debt with original maturities longer than one year) was rescheduled on May 20 (subject to bilateral agreements to be negotiated along the lines of the May 20 agreement). Approximately \$800 million which would have been due prior to June 30, 1979 was covered. Turkey must pay an estimated \$40 million of this amount in 1978.

4. Table III indicates the debt service exclusive of repayments of principal of current short term debts.

TABLE I.—CURRENT STATUS OF TURKEY'S PUBLIC DEBT
STATUS AT END OF PERIOD (1ST QUARTER 1978) AMOUNTS OUTSTANDING
(In thousands of U.S. dollars)

Country	Official development aid	Officially guaranteed private credits		Total amount outstanding
		Maturities under 1 yr	Maturities more than 1 yr ¹	
Austria	7,616			7,616
Belgium	34,400	25,230	6,500	66,130
Canada	9,262		263,334	272,596
Denmark	3,482	12,449	16,404	32,335
France	21,957	179,956	283,487	485,400
Germany	240,624	428,479	72,748	741,851
Italy			95,396	95,396
Japan	43,700	118,900	417,100	570,700
Netherlands	27,706	39,522	58,265	125,493
Norway	3,269	3,681	1,774	8,724
Sweden	9,006	20,702	7,120	36,828
Switzerland	20,602	41,605	458,845	521,052
United Kingdom	82,021		302,321	384,342
United States	898,262	5,898	651,244	1,555,404
Total	1,401,907	876,422	2,634,538	4,912,867

¹ Including other official flows.

TABLE 2.—FOREIGN DEBT OF TURKEY

	1975	1976	1977
1. Medium and long-term debt.....	4,262	5,462	6,798
(1) Multilateral creditors.....	1,451	1,872	1,898
World Bank group.....	1,055	1,319	1,375
EIB.....	360	467	436
Others.....	36	86	87
(2) Bilateral creditors.....	2,661	3,243	4,200
(i) Consortium countries.....	2,538	2,743	3,379
Official.....	2,393	2,478	2,615
Private ²	145	265	764
(ii) Nonconsortium countries.....	123	500	821
Official.....		350	359
Private ²		150	462
(3) Euro-currency loans.....	150	347	350
(4) Supplier credits to private sector ³			350
1. Short-term debt.....	1,388	3,342	6,146
Convertible lira deposits.....	991	1,781	1,979
IMF.....	243	391	409
Dresdner Bank.....		53	178
Bankers' credits.....	7	413	386
BIS.....		150	190
Overdrafts.....		150	266
Commercial arrears ⁴		234	1,930
Noncommercial arrears.....			289
Acceptance credits.....			409
Others.....	147	170	110
Total (1 plus II).....	5,650	8,804	12,944

¹ Secretariat's estimate including undisbursed credits (\$2,000,000,000 at the end of 1977).

² Including officially guaranteed credits.

³ Credits in cash and kind.

⁴ Including \$350,000,000 oil debt.

TABLE 26.—TURKEY: FOREIGN DEBT SERVICE, 1975-79

[Dollar amounts in millions]

	1975	1976	1977 ¹	1978 ²	1979
Interest.....	\$124	\$217	\$320	\$700	\$800
Medium- and long-term debt ³	107	139	160	4250	400
Short-term debt ⁴	17	78	160	450	400
Principal.....	117	119	214	4430	450
Total debt service.....	241	336	534	1,130	1,250
Total debt service in percent of exports of goods and workers' remittances.....	8.8	11.4	20.0	30.0	30.0

¹ Estimate.

² Projection.

³ Corresponds to medium- and long-term external debt of the public sector in table 25.

⁴ Includes private foreign debt.

⁵ Corresponds to liabilities of the Central Bank and acceptance credits in table 24.

⁶ Excluding rollover of short-term debt. (\$5,000,000,000).

Sources: Data provided by the Turkish authorities; and staff estimates.

Mr. VEST. Could I make one comment, sir?

Mr. LONG. Yes.

Mr. VEST. I think it is worth making. You mentioned Portugal earlier. You mentioned Turkey now. With every country that is a close ally, that is a major support in the democratic free world, if such a country periodically runs into budgetary or financial difficulties, we have felt it is worth doing something to help them through such emergencies.

Portugal, for example, coming straight out of a revolution for the first time in over 45 years to democratic—

Mr. LONG. What is the purpose of the International Monetary Fund, to help our enemies?

Mr. VEST. The International Monetary Fund is not so politically motivated. We simply are politically motivated in this sense.

Turkey and Portugal are two major countries, major allies, and democratic countries, and Turkey, we feel, deserves this kind of help at such a time when it is trying to pull up its own bootstraps as well.

I realize you have this with—I can see the expression on your face, but nevertheless I just want to make the record. I think such countries require special consideration in addition to the apolitical IMF kind of approach as a resort to which these countries can go.

Mr. LONG. I want this brought up, this backdoor stuff—

Mr. VEST. Sir, it is not backdoor. It is straight national policies which we think is worth supporting.

Mr. LONG. I thought that was the purpose of the IMF. You are giving the same arguments for this extra money to Turkey and Portugal that are given for our participation in the IMF. Isn't that true?

Mr. VEST. I don't want to get into this at all, sir. I just consider that Turkey is an exceptional situation.

Mr. LONG. Well, you have got a job to do.

Mr. VEST. No, sir, I believe it. There is a distinction there.

Mr. LONG. Will the U.S. attach restrictions to this loan such as specific reform measures—

Mr. YATES. What do we mean by reform measures?

Mr. LONG. Specific reform measures that Turkey must institute?

Mr. EWING. No, there are no specific conditions that would be attached to the proposed loan. I might just say, though—

Mr. LONG. We do that when we give money to New York. We are insisting on some fairly stringent conditions. Maybe not so much as we would like to have, but from the standpoint of New York they regard all these conditions as somewhat on the humiliating side. We do this for New York, but we won't do this for Turkey.

Mr. McHUGH. If the chairman will yield, we also charge a higher interest rate to New York.

Mr. LONG. I think the gentleman from New York is entitled to five minutes on this question, if he wishes.

Mr. EWING. I certainly can't speak about the New York case, but Turkey has made commitments to the International Monetary Fund, has in effect accepted conditions worked out with the IMF, and this proposed loan that we would make was recommended after the IMF and Turkey worked out their agreement.

Mr. YATES. Mr. Chairman, is that because Turkey could not meet certain commitments of IMF and therefore you felt it was necessary to give it additional money through this channel?

Mr. EWING. Conditions were agreed to by Turkey and the International Monetary Fund. They accepted the IMF conditions. After that took place, we are recommending this amount to supplement the IMF assistance.

Mr. YATES. Are the same conditions that are present for the IMF loan present with respect to the money that you propose to make available to Turkey?

Mr. LONG. Could you list the reforms and conditions?

Mr. YATES. Are there any?

Mr. EWING. Yes, there are.

Mr. VEST. We will provide a list.

Mr. YATES. Not for IMF, but I mean through this handle.

Mr. LONG. I thought they said they didn't ask for any.

Mr. YATES. That is right. That was the basis for my question, the fact that Turkey went to IMF for money and had to meet certain IMF conditions. Apparently Turkey wasn't able to get as much money as it wanted from IMF with those conditions, is that correct?

Mr. EWING. Turkey is getting from the IMF the maximum that the IMF under its rules can make available in this period of time and it has accepted all of the conditions.

Mr. YATES. Why would you not require the same conditions in your proposed loan to Turkey that IMF requires?

Mr. EWING. We certainly can make available for the record the conditions that Turkey has accepted.

Mr. LONG. I think the gentleman from Illinois has asked a good question. Why didn't we just say we want the same conditions for this loan that the IMF is exacting for IMF loans? Why haven't we done that? Political reasons?

Mr. EWING. We fully expect the Turkish Government to comply with conditions that it has agreed to with the IMF. The IMF disbursement of funds will occur over the next two years, and they will be constantly monitoring performance.

Mr. LONG. Will those conditions meet the needs of our loan? That is the point we want to make.

Mr. EWING. These conditions—yes, I think they will meet.

Mr. LONG. They will automatically do that.

Mr. EWING. They will not be explicitly written into the loan agreement.

Mr. LONG. We want to know what those reforms and conditions are, what the timetables are and how the conditions which IMF has enacted will meet the needs of our loans.

Mr. VEST. They will clearly create the conditions under which our loan operates, in fact, but we will provide you with that detail.

Mr. LONG. Since we are not explicitly attaching those conditions to the loan, we need to know how the IMF conditions will nonetheless meet requirements.

[The information follows:]

The precise terms of a standby agreement between the IMF and a member country are not normally made public. Turkey, in its letter requesting the standby, identified a number of areas in which it felt new policies were necessary, informed the IMF of the policies adopted or to be adopted, and in some areas, set quantitative targets or quotas. The IMF, for its part, when basically satisfied that the proposed economic program will address the causes of the balance of payment problems, offers the standby with a schedule of disbursements, each disbursement being conditional upon continued adherence to the program and usually linked to the achievement of specific targets or taking of specific actions.

While the precise "performance criteria" of the Turkey-IMF agreement are not public, a number of the elements of the Turkish government's economic program have been announced over the past few months. In addition to two devaluations totaling thirty percent, there have been substantial price increases on products of State enterprises, designed to reduce the budget-financed deficits of these organizations; the 1978 budget was restrained, particularly on public sector expenditures; import procedures were revised to reduce reliance on short-term financing; and a tax reform package amending 210 articles of the tax laws was

submitted to Parliament; interest rate measures designed to encourage domestic saving and investment, particularly in agriculture and small business, were adopted.

Mr. McHUGH. Will the chairman yield for a minute.

Mr. LONG. Yes, I yield.

Mr. McHUGH. I think what you brought up before is interesting. It is true, isn't it, that we didn't attach the conditions because it would be politically sensitive to do so?

I wouldn't complain about that, but it is true, isn't it? It is a very sensitive climate of relations between Turkey and the United States, and to ask for conditions would simply be politically difficult, isn't that true?

Mr. EWING. That is correct, and I think it is our view basically it is the responsibility of the International Monetary Fund on an international multilateral basis to work out these conditions with one of the member countries, and that has been done in this case. It would be much more difficult for some of the reasons you cite of us imposing or negotiating conditions.

Mr. McHUGH. I think that is understandable. I am just curious, using the New York analogy, the policies are reversed. It is impossible to extend a loan unless you impose conditions. This seems to be the opposite in terms of our relations with Turkey.

Mr. VEST. But you are dealing with something inside a country, as dealing with something which has to have an international framework.

Mr. YATES. Will you yield?

Mr. McHUGH. Certainly.

Mr. YATES. I think Mr. McHugh makes a very good point. I would think that would be the answer which you gave to my question as to why you were not imposing the IMF conditions. I assume the conditions you give for this loan to Turkey are the same as you give to other countries, not worse or better, is that correct?

Mr. EWING. That is correct.

Mr. McHUGH. Where you consider the relationship a politically sensitive one.

Mr. VEST. Yes, sir.

Mr. LONG. What is the current situation regarding Turkey's ability to uphold their NATO commitments?

Mr. VEST. Perhaps I should take that one, sir.

Mr. LONG. What is the current situation and what will it be as a result of this loan, the resumption of or the elimination of the embargo?

Mr. VEST. The military capabilities have continued to progressively decline since 1974 because of its lack of foreign exchange and its inability to finance arms acquisitions from Western Europe, the third party transfers which I mentioned earlier. The biggest problem simply is in the highly mechanized services, the Air Force, particularly.

The aircraft inventory has gone down. Spare parts have gone down. Training is down. It doesn't mean that they are not able to carry forward a minimum of their present missions, but with the lack of training, a lack of spare parts, a lack of modern material, each year they get further and further behind.

What we are talking about now is a very large order of activity indeed. A simple example. Many of the spare parts for the Turkish

armed forces are obtained through something called NAMSA, which is a NATO supply agency.

Anything which is obtained through that agency has to be charged against the FMS figure that we are considering here. It means they get less and less.

Mr. LONG. Mr. Secretary, presumably if we eliminate the embargo and resume normal relations, sales of weaponry and so forth to Turkey, they are going to need the money to buy those weapons.

Mr. VEST. Yes.

Mr. LONG. This \$50 million doesn't give it to them because \$50 million is only for balance of payments.

Mr. VEST. That is correct.

Mr. LONG. Are we going to then be presented with a big bill for FMS credit sales to Turkey?

Mr. VEST. No, sir. You have got your \$175 million figure right here before you.

Mr. LONG. And that is going to be enough to take care of it?

Mr. VEST. And that is the figure.

Mr. LONG. You are not going to come back. You guarantee, we want to take careful notice, you guarantee that you will not come back here for anymore money?

Mr. VEST. For a supplemental.

Mr. LONG. For FMS?

Mr. VEST. This year.

Mr. LONG. Either in the supplemental or in the appropriation for next year.

Mr. YATES. You don't mean that, Mr. Chairman, do you, the supplemental or the appropriation for next year? I think he was directing himself only to a particular supplemental.

Mr. LONG. Or in the future, whenever this takes effect.

Mr. VEST. We have no plans of any kind for anything, sir.

Mr. LONG. That is a copout. Come on, Mr. Secretary.

Mr. VEST. No, sir, I am not the President of the United States.

Mr. LONG. That is one of the best arguments you ever give, one of the best answers anybody ever makes to a jury. I have no plans.

Mr. VEST. That is right, sir.

Mr. LONG. I have no present intention of robbing a bank.

Mr. VEST. The point of all of this is it makes it very much easier to go to other sources as well to finance and get access to materiel and equipment, but we have put forward what it is we are asking for, \$175 million, and that is that.

Mr. LONG. And that is all.

Mr. VEST. And that is the same level of 1978.

Mr. LONG. And that is all it is going to be.

Mr. VEST. I take your word for that, sir.

Mr. LONG. I want to find out whether you are going to ask for anymore.

Mr. VEST. No, I am not going to ask for anymore, sir.

Mr. LONG. You are not or the State Department is not?

Mr. VEST. At the moment the State Department is not going to.

Mr. LONG. At the moment.

Mr. VEST. Sir, I am not the Secretary of State.

Mr. LONG. On the other hand, the State Department might very well come back—

Mr. VEST. No, sir.

Mr. LONG (continuing). For a fairly great expansion—

Mr. VEST. No, sir.

Mr. LONG (continuing). Of future credits.

Mr. VEST. I am being unduly differential to my superiors. We do not plan to come back for anything more.

Mr. LONG. That is not my question. Do you plan not to come back for anything more?

Mr. VEST. We plan not to come back for anything more.

Mr. LONG. Very good.

Mr. VEST. All right, sir. I don't want any misunderstanding on that.

Mr. LONG. What would be your estimate of the Turkish reaction if the Turkish arms embargo is not repealed?

Mr. VEST. Turkey certainly would be in an exacerbated situation. There would be many political figures inside Turkey who would be angry. In a worse case scenario, it could begin to take a cooler relationship to the United States and to NATO.

I don't see any sign that they are planning to do that at the present time at all. I think Ecevit is determined to try to go on in the course that he is in as a NATO leader.

Mr. LONG. Does this \$50 million for security support and assistance require an end of the embargo? We can give this anyway, can't we?

Mr. VEST. It is separate.

Mr. LONG. This is a separate deal.

Mr. VEST. Yes, sir.

Mr. LONG. So in a sense this is a holding payment, in case we don't end the embargo, right?

Mr. VEST. No, sir. All the elements in there we think are worthy in their own right.

Mr. LONG. I understand, but this is in a sense saying all right we can't give you that, but here is \$50 million.

Mr. VEST. That is not at all the premise on which we put it forward, sir.

Mr. LONG. I hear what you say. Very well. Those are all the questions I have.

Mr. YATES. I have some questions.

Mr. LONG. Oh, you have more.

Mr. YATES. Oh, yes.

Let's go back to our parallel with Israel.

Mr. VEST. Sir, I am sorry I ever brought that parallel forward.

Mr. YATES. Israel has agreed to withdraw from Lebanon, and I think now is at the point of withdrawing her last troops.

Mr. VEST. Correct, sir.

Mr. YATES. From Lebanese territory. Has Turkey done any of that with respect to Cyprus? How many troops has Turkey withdrawn from Cyprus?

Mr. VEST. Since 1974 it has withdrawn about 16,000.

Mr. YATES. 16,000 and how many remain?

Mr. VEST. A little less than 30,000.

Mr. YATES. A little less than 30,000 troops still remain on Cyprus?

Mr. VEST. Yes, sir.

Mr. YATES. Has Turkey indicated that it intends to withdraw any of the remaining 30,000 troops from Cyprus?

Mr. VEST. No, except that it has made a commitment that it will withdraw all its forces in the context of a settlement.

Mr. YATES. In the context of what kind of a settlement?

Mr. VEST. Between the two parts, a negotiated settlement, and it has also stated a willingness to consider additional troop reductions beyond the more than 16,000 it removed in an earlier time, as the negotiations progress.

This is an additional commitment that Mr. Ewing has called my attention to.

Mr. YATES. As negotiations progress. What is the state of the negotiations?

Mr. VEST. At the moment, the negotiations have not been resumed because the Greek Cypriots have been unwilling to resume the negotiations.

Mr. YATES. So that in the absence of the Greek Cypriots being willing to renew the negotiations as you state, no further troops will be withdrawn from Cyprus by Turkey?

Mr. VEST. In the absence of negotiations being resumed, we have no statement from the Turks that they will not resume withdrawals. It is just they have merely stated what they—

Mr. YATES. What would happen to the Turkish residents on Cyprus if the Turks did withdraw say 20,000 out of the remaining troops it has on the island?

Mr. VEST. What would happen to the Turkish residents?

Mr. YATES. Yes. Anything?

Mr. VEST. I have no idea, anything.

Mr. YATES. Couldn't 10,000 troops adequately protect their interests?

Mr. VEST. I couldn't say, sir.

Mr. YATES. Could anybody tell us that? Is there a military man here? Is there somebody familiar with the conditions?

Mr. VEST. I will take the question and send an answer, but I am not aware that there has ever been an estimate of any kind as to what the ratio should be.

Mr. YATES. Isn't this one of the conditions that the Cypriots are raising; namely, that they don't want to negotiate with so many Turkish troops on the island, just as Turkey doesn't want to negotiate because of the embargo, so you have an impasse? Neither side wants to move and my question was directed to the possibility of opening the impasse, if the Turks withdrew their troops.

You say that it requires a lifting of the embargo for negotiations to be resumed?

Mr. VEST. No, sir.

Mr. YATES. The Cypriots say no.

Mr. VEST. No.

Mr. YATES. The Greek Cypriots say no.

Mr. VEST. No, I say it will assist.

Mr. YATES. How do you know it will assist? You point to Ecevit's statement, which really is not anything more than a hope, is it?

Mr. VEST. We point to the extensive coverage we have had of internal domestic political situations in Turkey for the last three years. Now to go back to the troops, however, we don't endorse the presence

of those troops there, but it is not the troops that are preventing a negotiation to begin. The Turkish Cypriots are not protesting the fact that they have those troops there.

Mr. YATES. The Turkish Cypriots aren't protesting that?

Mr. VEST. No, sir.

Mr. YATES. I would think they wouldn't, but do the Greek Cypriots protest it?

Mr. VEST. No, there is no menace to the Greek Cypriot side from the Turkish troops. There are United Nations troops between the two sides.

Mr. YATES. Are the Turkish troops a menace to the Greek Cypriots if they want to go back to Famagusta?

Mr. VEST. No, sir.

Mr. YATES. You mean they may go back?

Mr. VEST. That is exactly what the Turkish Cypriots and Ecevit have said. They are willing to have the 35,000—

Mr. EWING. Up to 35,000.

Mr. VEST [continuing]. Up to 35,000 Cypriots return to the Famagusta area.

Mr. YATES. If what? Is there a condition upon that return?

Mr. EWING. Yes. They have said that this return could begin and continue as the negotiations take place.

Mr. YATES. As the negotiations continue.

Mr. EWING. That is right.

Mr. YATES. But they don't say that the Greek Cypriots may return there now without the negotiations?

Mr. EWING. No, they do not say that.

If I could make the point, sir, each of the factors we are talking about, whether it is the withdrawal of troops, the return of Greeks to Famagusta, a change in the residence, a change in constitutional arrangements or lines, all of these are natural points of the negotiation itself, and it is all of these that the Turkish Cypriots have said they would like to negotiate.

Mr. YATES. Let's turn to Section 620(x) of the Foreign Assistance Act. That is the section of current law that contains the language providing for the embargo, is it not?

Mr. VEST. Yes, sir.

Mr. YATES. The Administration requested that that paragraph be stricken from the new foreign assistance bill, is that correct?

Mr. VEST. Yes, sir.

Mr. YATES. And the Senate has not stricken it from its version of the bill, has it?

Mr. VEST. That is correct.

Mr. YATES. And the House struck it by one vote did it not?

Mr. EWING. In the International Relations Committee.

Mr. YATES. As I recall the press statements that took place about that time, I think Mr. Harrington was delayed by a late plane. Otherwise that section would still be in the law.

Mr. VEST. That is correct.

Mr. YATES. Let's look at that section because there is the very good chance that that section may be in the law again, isn't there? Reading your statement, I don't find any reference to that section at all, and

that section provides for the embargo "unless the President determines and certifies to the government that the Government of Turkey is in compliance with the Foreign Assistance Act of 1961, the Foreign Military Sales Act and any agreement entered into under such act, and that substantial progress toward agreement has been made regarding military forces in Cyprus."

Has the President determined and certified to Congress that the Government of Turkey is in compliance with the Foreign Assistance Act of 1961?

Mr. VEST. No.

Mr. YATES. It has not. Has the President determined and certified to the Congress that the Government of Turkey is in compliance with the Foreign Military Sales Act?

Mr. VEST. Just one minute, sir. Not in the sense of this act, no.

Mr. YATES. Has the President determined and certified to the Congress pursuant to any agreement entered into under such acts that the embargo should be lifted because of those agreements, and that condition appears in this legislation?

Mr. VEST. The President's action has simply been to recommend repeal of the whole thing.

Mr. YATES. Then that condition has not been met, has it?

Mr. VEST. No.

Mr. YATES. That legislative condition.

Mr. VEST. We have never argued that any of these conditions have been met, sir.

Mr. YATES. Has the President determined and certified to the Congress that substantial progress toward agreement has been made regarding military forces in Cyprus?

Mr. VEST. No, sir.

Mr. YATES. Nevertheless, even though that is the law and the prospective law, none of those conditions have been met, and yet it is proposed to lift the embargo.

Mr. VEST. Exactly, sir, for all the reasons I have mentioned here before this.

Mr. YATES. Even though they are not in compliance with the law?

Mr. VEST. Exactly, sir.

Mr. YATES. The proviso to that law says this: "For the fiscal year 1978"—and the Senate version of the act proposes to substitute fiscal year 1979 for 1978, it says this: "The President may suspend the provisions of this subsection and of Section 3(c) of the Arms Export Control Act with respect to cash sales and the extension of credits and guarantees under such act for the procurement of such defense articles and defense services as the President determines are necessary to enable Turkey to fulfill her defense responsibilities as a member of the North Atlantic Treaty Organization."

Now, has the President determined that the amount you are requesting is necessary to enable Turkey to fulfill her defense responsibilities as a member of the North Atlantic Treaty Organization?

Mr. VEST. That was done, sir, for 1978.

Mr. YATES. Has it been done for 1979?

Mr. VEST. Not as yet because this particular factor of the lifting of the embargo has not yet been settled.

Mr. YATES. Even though it is a prospect that it will be a part of the law, the President has not yet certified that basic condition that is a condition precedent to the grant of the \$175 million?

Mr. VEST. Yes, he normally would, sir.

Mr. YATES. He will?

Mr. VEST. Yes.

Mr. YATES. You have his assurance on this?

Mr. VEST. Yes.

Mr. YATES. So that you have the limitation then of \$175 million?

Mr. VEST. Fiscal year 1978.

Mr. YATES. So there is not in your statement as I read it any indication that the President would make that certification, is there?

Mr. VEST. No, sir, it is not in that statement.

Mr. YATES. But isn't that a condition precedent to our granting aid if that becomes a part of the law?

Mr. VEST. If you lift the embargo.

Mr. YATES. But you cannot lift the embargo.

Mr. VEST. Just a minute, sir.

If the law is not changed, he will certainly have to do that and he will do that.

Mr. YATES. Doesn't he have to—

Mr. VEST. No, sir.

Mr. YATES. Before we approve your request for \$175 million or a sum under that for FMS, there would have to be that certification, if a similar provision to the law last year is enacted into law by Congress this year.

Mr. VEST. If the law continues to be as it was last year, yes.

Mr. YATES. So that as of this moment, we do not have authority to provide the funds that you are requesting, do we?

Mr. EWING. That is true for 1979.

Mr. YATES. That is correct.

Mr. EWING. The authorization for 1979 has not yet been acted on by the Congress. For 1978 the assistance authorized and appropriated by the Congress was made available to Turkey subject to the determinations required of the President in accordance with section 620(x).

Mr. YATES. Thank you, Mr. Chairman.

Mr. LONG. Thank you, Mr. Yates.

Mr. McHugh?

Mr. McHUGH. Thank you, Mr. Chairman.

As I understand it, the Senate Foreign Relations Committee has rejected a lifting of the embargo. What will be the procedure on the Senate floor?

Mr. VEST. I don't know what will happen on the Senate floor. I trust something will happen on the Senate floor.

Mr. YATES. They are hoping for it.

Mr. VEST. I am going on the assumption, sir, that something will happen on the Senate floor.

Mr. McHUGH. In the event that the embargo is continued, is it your position that Congress should proceed nonetheless with other parts of the package you have proposed, specifically, the security supporting assistance and the contribution of \$5 million for assistance to Cyprus for displaced persons?

Mr. VEST. Absolutely.

Mr. McHUGH. What impact would that have on the posture of the parties to the potential negotiations? Would it have any positive implications?

Mr. VEST. We have put each of those figures in there in the belief that it will be helpful to provide us a relationship with the countries, and it will make them more disposed to move on to negotiation. That is why we have as well the lifting of the embargo. We think that provides the same influence, but each of them is a contributory and has its own value.

Mr. McHUGH. Would Congress be justified in your opinion in concluding that we would be taking some constructive steps toward the promotion of negotiations even if we don't lift the embargo but we do these other things which you have mentioned?

Mr. VEST. I would phrase it that you are not being constructive enough. This is why we put so clearly an emphasis on lifting the embargo.

Mr. McHUGH. Would it be reasonable to conclude that it would have no impact to do these things if we don't lift the embargo? We have already provided \$175 million in credit sales to Turkey for FY 1978 and it has not had a significant impact in terms of the promotion of negotiations.

Mr. VEST. I think not lifting the embargo would have a very sizable impact, and I think it would poison relationships with a certain number of the elements in Turkey, and would make the whole process of moving on to negotiation much more difficult.

Mr. McHUGH. I understand your position on the embargo. What I am trying to determine is whether Congress can reasonably conclude that something will be accomplished by providing \$50 million of security supporting assistance and \$5 million for Cyprus if we decide not to lift the embargo. If we are going to report this to the House, we have to argue that it will have some beneficial impact.

Now this fiscal year we provided \$175 million in credit sales, and we can't point to very much other than Mr. Ecevit's statements at the Press Club.

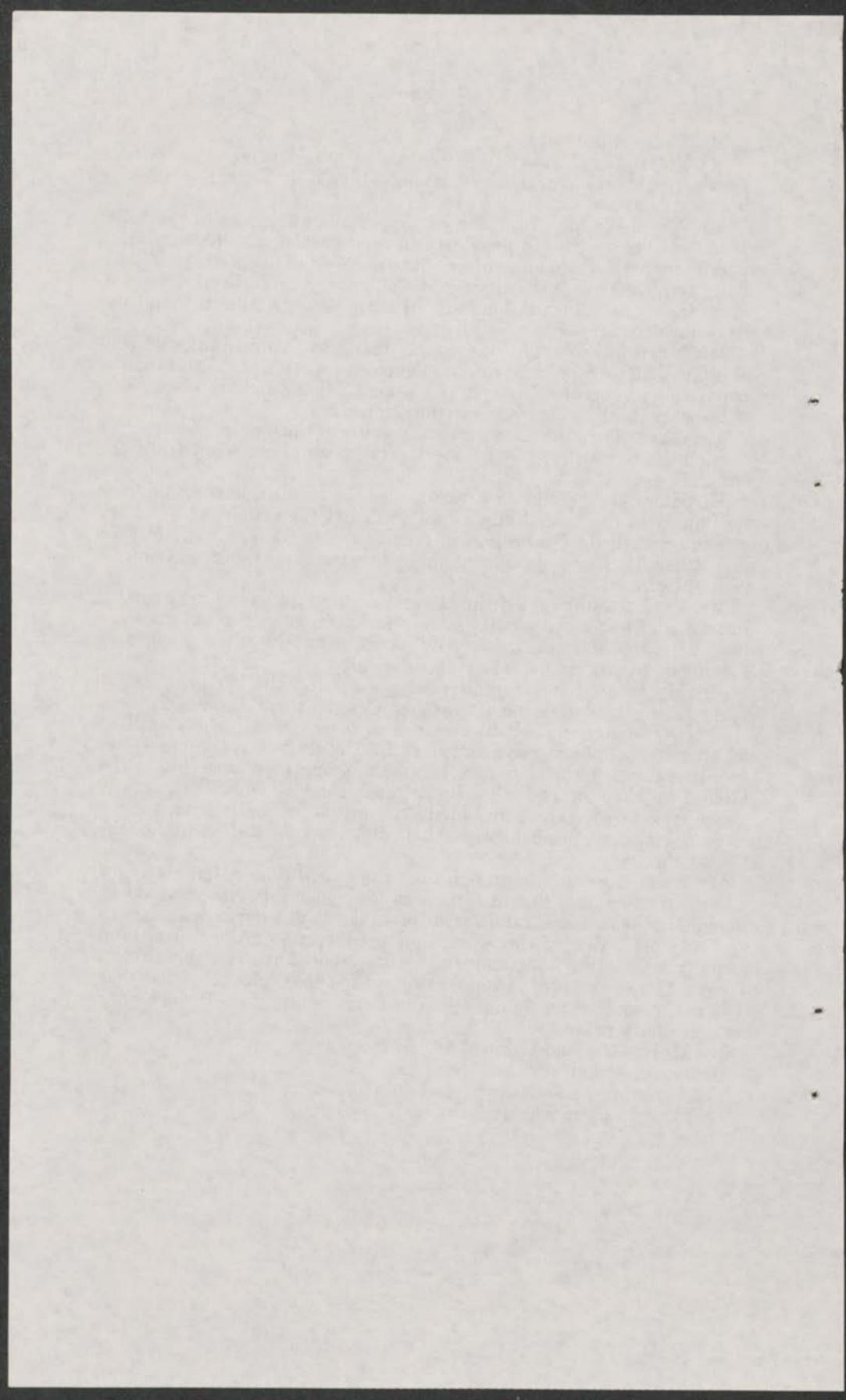
Mr. VEST. I would like to point out that we all know that each new administration has different capacities for leadership, and you have in Ecevit this year a new administration in Turkey. I don't denigrate in any way the value of the \$5 million for Cyprus or the \$50 million security supporting assistance for Turkey. Those are valuable things. We put them there for the very reason we felt they had value, but that does not mean that we do not consider that the other has its own very extraordinary value.

Mr. McHUGH. Thank you, Mr. Chairman.

Mr. LONG. Thank you, Mr. McHugh.

The Committee stands adjourned.

Thank you very much, Mr. Vest.



INDIA

TUESDAY, JULY 25, 1978.

WITNESSES

HON. JOHN J. GILLIGAN, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

HON. JOHN H. SULLIVAN, ASSISTANT ADMINISTRATOR FOR ASIA BUREAU, AGENCY FOR INTERNATIONAL DEVELOPMENT

HON. JACK MIKLOS, DEPUTY ASSISTANT SECRETARY FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS, DEPARTMENT OF STATE

Mr. LONG. The hearing will come to order.

Governor, as you know, AID has sent up prior notification for a \$60 million program for India for Fiscal 1978. Since May we have held up obligations so we can conduct a hearing to determine if India is committed to helping its poor, or perhaps I should say, is any better committed to helping its poor than it has been in the past, and if the AID projects are designed to reach the poor.

Mr. Young has also had objections to the program because of Indian assistance to Vietnam. We have delayed this hearing in hopes of first completing floor action on our fiscal 1979 bill. Even though we have not yet completed action on this bill, at your request, we are conducting this hearing today.

Governor, do you have a statement which you would like to summarize in five minutes?

STATEMENT OF THE ADMINISTRATOR

Mr. GILLIGAN. Thank you, Mr. Chairman and members of the committee.

I would like to make a brief statement and then Mr. Sullivan, Assistant Administrator for Asia, and Mr. Miklos, Deputy Assistant Secretary of State for Southeast Asia, and I would be pleased to attempt to respond to any specific questions you might have.

I am pleased, sir, to have this opportunity to appear before you to discuss the proposed AID program for India in fiscal year 1978 and fiscal year 1979. The Congress in enacting the International Development and Food Assistance Act of 1977 requested the President to commit up to \$60 million in development assistance to India. We welcome this request to participate in India's first Five-Year Development Plan since its return to full parliamentary democracy.

India again has committed itself to economic and social progress for its people within the framework of parliamentary elections. The United States has a strong interest in seeing India succeed in its development endeavors as an example that democratic governments can succeed without resort to authoritarian methods.

Half a billion poor people live in India, that is, 50 percent of the poor in all AID-assisted countries. At least one-quarter of India's 630 million people are underfed and malnutrition is widespread among children.

I might say, Mr. Chairman, that the population figure of 630 million people at the present time is expected shortly after the turn of the century to top one billion people.

We feel strongly that the United States should participate directly in this important arena in the struggle against world poverty.

The Indian Government's development goals are articulated in its draft Five-Year Plan for 1978-1983 which has recently been approved in principle and represents an authoritative statement of country commitment and review of past performance. Its principal objectives are: (1) increasing employment and production, particularly in rural areas, and (2) providing more of the basic needs of the poor, such as clean drinking water, adult literacy, elementary education, health care, rural roads, rural housing for the landless and minimum services for the urban slums. These goals are remarkably similar to the same objectives this Agency supports.

Ambitious targets have been set for the next five years. The national budget for agriculture already has been increased 43 percent in 1977 from the 1976 level. Irrigated land is to be expanded during the Plan by 17 million hectares, almost double the current rate.

PROPOSED IRRIGATION EXPANSION

Mr. LONG. Would you go over that statement again, Governor?

Mr. GILLIGAN. Yes, sir.

Irrigated land during the period of this plan is to be expanded by 17 million hectares. That is almost double the current rate of expansion of irrigation in India today.

Mr. LONG. What is that compared with the total amount of land in cultivation?

Mr. GILLIGAN. I don't know, sir. We will have to give you that figure.

[The information follows:]

IRRIGATED LAND IN INDIA

Total cropped area in India is 210 million hectares, of which 107 million, or 51 percent, is potentially irrigable. Irrigated land achieved by 1977-78 was 48 million hectares, or 28 percent of cropped area. The sixth Five-Year Plan (1978 to 1983) calls for the irrigation of 17 million more hectares.

Mr. LONG. So even by doubling the current amount of land under irrigation, it still is going to mean a relatively small proportion of their land that will be irrigated?

Mr. GILLIGAN. Yes, sir.

Fertilizer consumption rose from 2.7 million tons in 1975 to a projected 4.2 million tons in 1977 and further increases are expected based on expanded domestic production.

With World Bank assistance, foodgrain storage capacity will be expanded by 3.6 million tons.

I might add, Mr. Chairman, that the International Food Policy Research Institute predicts a 70-to-85-million-ton food deficit in the

poor countries of the world by 1990. Over half of that deficit will be in Asia. The study estimates that India will account for roughly 50 percent of LDC food production in 1990. However, even with such levels of output, they will require 18- to 22-million tons of grain imports unless rates of agricultural growth increase.

The potential for such growth is clear. It is recognized by the donor community and by the Indian Government itself.

At present, the Indian farmer obtains average yields of 1,000 pounds per acre. If we could help the Indian farmer become one-half as productive as our American farmer, not only would India be able to feed its own millions in the next decade but also projected worldwide food deficits would be wiped out.

Mr. LONG. You mean, one-half as productive per acre or per man?

Mr. GILLIGAN. Per acre. If the Indian farmer could be one-half as productive per acre as the American farmer, we could not only solve Indian's food problems but also the International Food Policy Research Institute—

Mr. LONG. Isn't that true of most of the developing world, that if you give them proper help, the outputs per acre can be far greater on these little plots of land than either in their own countries or elsewhere in the developing world? We produce great outputs per person but we could not produce great outputs per acre?

Mr. GILLIGAN. That is correct.

Mr. LONG. It wouldn't be an impossible goal for them to have an even higher output per acre than we have in the United States?

Mr. GILLIGAN. It is conceivable that could be achieved. The point is that not only are they per acre behind American productivity, but also they are behind productivity in a number of other LDCs.

Mr. LONG. Yes.

Mr. GILLIGAN. In the Philippines, Indonesia and Taiwan they have achieved levels of production far higher than those currently in effect in India. The big point is that in the international or the global race between population and food, the greatest potential for increase in global production of food is in India, and if we could achieve what the Indian Government has set out to do, we would not only be able to solve their problems but also, as the Institute has pointed out, we could go a long way toward solving global food deficits within the next decade or two.

Mr. LONG. Ambassador Moynihan once said—how accurately I don't know, but he was the ambassador there—that if the great plains of India were properly cultivated you could feed the whole world.

Mr. GILLIGAN. That might be a slight exaggeration, but it isn't far from the mark. For instance, it was pointed out in the same report that if the Indian farmer could increase his production by four percent annually, rather than the 2.5 percent rate of increase that is presently in effect, India could reduce the projected food deficit of the developing nations by one-half. In other words, just that incremental change would reduce the global food deficit by half of what it is presently projected to be.

In response to your earlier comment about the commitment made by the incumbent Indian Government, whether or not they have decided on policies designed to help the poor within their own land, and especially the rural poor, India has a recognized vast potential

for increasing its agricultural productivity and output. In the next five years the goal will be to double the past rate of growth through a 35 percent increase in total irrigated area.

This program will account for the largest sectoral increase in planned expenditures, through higher yields per hectare, through improved farmer access to fertilizer, high-yielding seeds, credit, research, extension services, storage, marketing and electrification, through allocation of the largest share of the Plan outlays to agriculture and rural development.

Forty-three percent of their outlays are for agriculture and rural development. In addition, rural development will benefit through (1) increased assistance to small-scale and cottage industries and (2) priority in the allocation of other infrastructure and social-service expenditures.

The budget for the current Indian fiscal year provides proof that agriculture and rural development do, in fact, have the top priority with the Indian Government.

Agricultural outlays will be up 39 percent, compared to a 17 percent average increase for all other expenditures. Special programs for helping small and marginal farmers and agricultural laborers will constitute the largest single agricultural budget item.

In keeping with the decentralization policy of the new government, the states and territories will for the first time undertake over half of agricultural development outlays.

I would further point out, Mr. Chairman, that in an article several months ago in the Christian Science Monitor it was pointed out that Mr. Desai hopes to solve what is essentially a distribution problem, and this is the one that has concerned the Members of Congress as well as us in AID, that hunger still exists despite the fact that they have had three good monsoon seasons and that they have a food storage of considerable magnitude presently under the control of the government.

The problem is one of distribution; and in this article it was said that Mr. Desai hopes to solve what is essentially a distribution problem by investing \$40 billion in the next five years in the 516,000 villages of India, to stimulate jobs, income and purchasing power.

Mr. Chairman, a policy for expanding integrated rural services in health and family welfare has been established and the central government malaria control budget has been doubled in recent years to over \$100 million. The government's budget has proposed a number of measures to raise revenues to finance these programs in an equitable manner.

We are proposing an AID program which will help increase agricultural production and rural employment and combat the resurgence of malaria.

As described in the Advices of Program Change recently submitted, we propose to initiate the AID program in fiscal year 1978 with loans for malaria control and irrigation and a grant for small-scale rural technology. In addition, we propose a small, operational program grant to the Cooperative League of the U.S.A. under our regional voluntary agency project which would provide technical assistance to a promising oilseed cooperatives program in India.

In the proposed grant for small-scale rural technology, the United States and India will cooperate in research and development of such things as new appropriate technologies for village level industry, fast growing trees for rural energy, and environmental preservation, and the use of solar cells for energizing pumpsets in small-scale irrigation projects.

In fiscal year 1979 we are proposing projects in malaria control and rural electrification. These are described in the AID fiscal year 1979 presentation submitted to the Congress in February.

In accordance with the desires of the authorizing committees, we also have held discussions with the Indian Government regarding its food-grain storage needs. The Indians propose that we fund part of the construction and related technical assistance costs of one million tons of storage facilities.

We plan to finance construction of these facilities, beginning in 1980 or 1981 after construction phases down on a program to add 3.6 million tons of storage facilities—

GRAIN STORAGE

Mr. LONG. Does India have facilities to store that much grain?

Mr. GILLIGAN. Yes, sir; there is presently a program, as financed by the World Bank, of \$214 million, that would construct an additional 3.6 million tons of storage facilities.

Mr. Chairman, I am providing for the record a brief paper describing India's need, performance and goals for the next five years.

[The information follows:]

PRESENTATION PAPER

I. U.S. INTERESTS IN INDIA'S DEVELOPMENT

There is an historic opportunity for the United States in participating now in India's development effort.

In returning to democratic government with full political liberties, India has become an example for other LDCs. India also has committed itself to economic and social progress for the majority of its population. The United States has a strong interest in seeing India succeed in these endeavors as an important example that LDCs can achieve development under democratic governments without resorting to totalitarian methods. If economic assistance is to serve U.S. interests, it must necessarily deal with India's massive development problems.

Poverty and population

Half a billion poor people live in India, which constitutes 50 percent of the poor in all A.I.D.-assisted countries. Of Indian's total of 630 million people, at least one quarter are underfed and malnutrition is widespread among children. Despite family planning efforts which have lowered the population growth rate to 2.1 percent per year, the population of India increases by one million each month (see chart).

Food

A recent International Food Policy Research Institute (IFPRI) study emphasizes that food production must increase dramatically in developing countries if consumers the world over are to avoid sharply rising costs.

The Institute predicts a 70-85 million ton food deficit in the poor countries by 1990. Over half of that deficit will be in Asia.

The study estimates that India will account for roughly 50 percent of LDC food production in 1990. However, even with such levels of output, they will require 18-22 million tons of grain imports unless rates of agricultural growth increase.

The potential for such growth is clear. It is recognized by the donor community and by the Indian Government itself.

At present the Indian farmer obtains average yields of 1,000 pounds per acre. If we could help the Indian farmer become one-half as productive as our American farmers, not only would India be able to feed its own millions in the next decade, but projected worldwide food deficits would be wiped out. If he could merely increase his production by 4.0 percent annually, rather than the current 2.5 percent rate of growth, India could reduce the projected food deficit of the developing nations by one half. (See chart.)

II. INDIA'S DEVELOPMENT PERFORMANCE AND PROSPECTS

Since its election a year ago, the Janata Party Government in India has shifted development policies toward a rural-based, employment-creating approach. Slow agricultural growth has been the core of India's development problem. Agriculture has grown at 2.1 percent per annum during the past 10 years, despite recent record harvests. It has not only perpetuated India's massive rural poverty but slowed overall growth. As the new Indian Five-Year Plan for 1978-83 states of the 30 years since Independence: "Per capita agricultural production has remained stagnant. This has proved to be a constraint on the pace of general economic development, and fluctuations in agricultural output have often led to unplanned cutbacks in public investment and bouts of inflation, both of which had a depressing effect on growth."

Past growth has not been without its benefits: a modern industrial sector has been created and important investments have been made in industrial and urban infrastructure. But 75 percent of the population is still rural and unemployment remains high. Modern agricultural techniques have been introduced in some parts of the country and a wheat reserve of 20 million tons has been established in recent years. This is due mainly to a succession of three favorable monsoons in a row—an occurrence unheard of in modern times and unlikely to be repeated.

But per capita grain consumption remains very low, over 150 million are considered seriously underfed and malnutrition is widespread among children. Exports have been diversified and workers have sent home large remittances from the Middle East. Foreign exchange reserves have increased to almost \$6 billion. But the daily lives of the rural poor of India still remain highly dependent on the vagaries of the seasonal monsoons.

If India should suffer several disastrous monsoons as it did in 1966-1967, its food buffer stocks literally would be eaten up. India would be forced to buy food on the open world market, which rapidly would erode its present foreign exchange position. The result would be a severe setback to India's development plans and increased world grain prices. (See chart.)

The approach of the new government, as reflected in the new Five-Year Plan, is to shift more resources into rural development, small-scale industry, employment creation and the meeting of basic human needs. Overall growth in GNP is projected at 4.7 percent annually, with emphasis on doubling the rate of growth in agriculture to 4 percent. This is less than the target rates set in previous plans and probably less than would be possible through an industrial growth strategy. But, if attained, it will be higher than the 3.2-3.8 percent GNP growth rates actually achieved under past plans.

India has shifted its development priorities in its new Five-Year Plan. (See chart.)

Agriculture and rural development

India has a recognized vast potential for increasing its agricultural productivity and output. In the next five years the goal will be to double the past rate of growth through:

A 35 percent increase in total irrigated area. This ambitious program will account for the largest sectoral increase in plan expenditures.

Higher yields per hectare through improved farmer access to fertilizer, high-yielding seeds, credit, research, extension services, storage, marketing and electrification.

Allocation of the largest share (43 percent) of Plan outlays to agriculture and rural development.

In addition, rural development will benefit through (1) increased assistance to small-scale and cottage industries; and (2) priority in allocation of other infrastructure and social service expenditures.

The budget for the current Indian fiscal year provides proof that agriculture and rural development do in fact have top priority:

Agricultural outlays will be up 39 percent, compared to a 17 percent average increase for all expenditures;

Special programs for helping small and marginal farmers and agricultural laborers will constitute the largest single agricultural budget item;

In keeping with the decentralization policy of the new government, the states and territories will for the first time undertake over half of agricultural development outlays.

Employment creation

The plan proposes to attack the massive problem of unemployment and underemployment on many fronts. Its goal is to create 49 million new jobs during 1978-83, or 63 percent more than the expected increase of 30 million persons in the labor force.

Half of the new jobs are to be created in agriculture and related activities. Employment will be encouraged by:

Land redistribution and consolidation;

Regulation of the growth of labor-displacing farm mechanization;

Encouragement of high growth sectors such as dairying, horticulture, forestry and fishing.

In industry the emphasis will be on small-scale and household production of consumer goods, aided by government help in:

Development of new appropriate technologies;

Credit, design and marketing.

Meeting minimum human needs

The new plan sets more ambitious targets and commits more funds to a comprehensive program that includes:

Elementary education, whose coverage will be expanded from 69 percent to 90 percent of children 6 to 14 years;

Adult education, which hopes to make literate 66 million of the estimated 100 million illiterates aged 15 to 35 years;

Rural health workers, health centers, and drinking water facilities, to be progressively extended in all areas;

Rural roads and electrification, to be substantially increased;

Housing assistance, to benefit 8 million landless laborers and 13 million urban slum dwellers;

Improved nutrition, through supplementary feeding programs benefitting an additional 6.6 million children and nursing mothers.

III. NEED FOR EXTERNAL RESOURCES

India will continue to rely mainly on its own domestic savings to finance its development effort. However, the rural-based expansion of output and incomes forecast in the new plan will generate a general increase in economic activity, including use of idle industrial capacity. Even with continued foreign assistance, this accelerated growth will result in a drawdown of India's foreign exchange reserves estimated at \$1.4 billion.

Foreign assistance will be needed on a steady, dependable basis to avoid repetition of past interruptions to investment and social programs. Based on past experience, India's current favorable foreign exchange and wheat reserve position is needed as a cushion against unforeseen crop failures and natural disasters.

Foreign assistance pledges from the India Aid Consortium, chaired by the World Bank with membership of the U.S. and 12 other bilateral donors, total \$1.3 billion (net of scheduled debt repayments) for the current year. Consortium assistance has recently emphasized project assistance tied more closely to rural development. Now the Indians have responded. U.S. aid in the Consortium context will signal U.S. support for the ambitious rural-based development strategy on which India has embarked in its new plan.

I visited India in January and met with a number of top officials of the Indian Government, including the Prime Minister. Two things became clear from those talks:

First, Indian officials are grateful for assistance received from the United States in the past and believe it has benefited their development greatly.

Second, the Indians continue to want our assistance, if we wish to re-establish our development cooperation effort there.

On the first count, our past aid, it is clear that we have had a role in such accomplishments as:

Over the past 20 years, life expectancy has increased in Indian from 32 to 57 years.

The infant mortality rate has declined from 140 to 122 per thousand.

The population growth rate has declined from 2.4 to 2.1 percent.

The proportion of children enrolled in primary schools has increased from 20 to 65 percent.

On the second count, Indians welcome a renewed assistance relationship in the kinds of programs which meet the Congressional mandate.

Recently we sent a combined team of private specialists and AID officials to India to make recommendations on a program for the term 1980-1985. This team gained access to appropriate Indian development officials at all levels and found a prevailing spirit of openness and cooperation. Not only did the Indians agree that our efforts should be in agriculture and rural development, but also expressed an interest in renewing U.S. assistance to family planning efforts—a subject in which the Congress has expressed considerable interest.

We recognize that India will sometimes take actions with which we as a nation do not agree.

But India is a large and proud country, much like the United States. It is potentially a world power and, moreover, a democratic country whose government is accountable to the people.

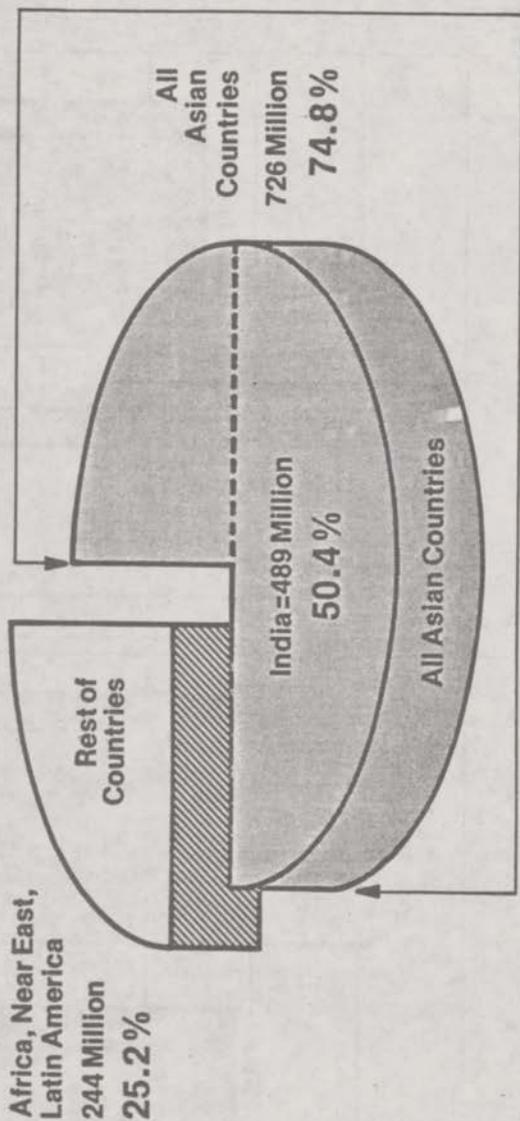
If we in the United States react to unpleasant actions by the Indians by denying or restricting our economic assistance, we will not change Indian Government policies. The effects, however, will:

Penalize the Indian poor who need assistance, and

Miss the opportunity to mitigate the projected world food crisis of future years.

At the present hour, this is the historic choice which is ours to make.

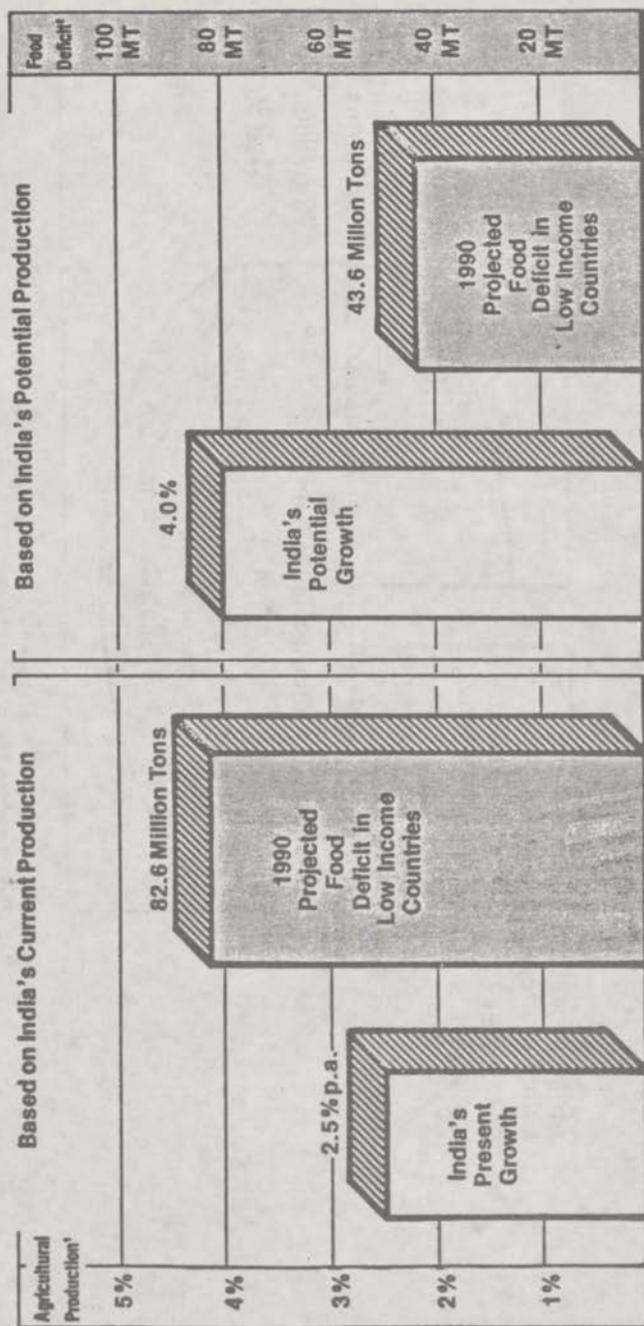
Poor Majority Population in A.I.D. Assisted Countries



Poor Majority in AID-Assisted countries according to proportion of population receiving less than \$150 per capita per year—970 million people.

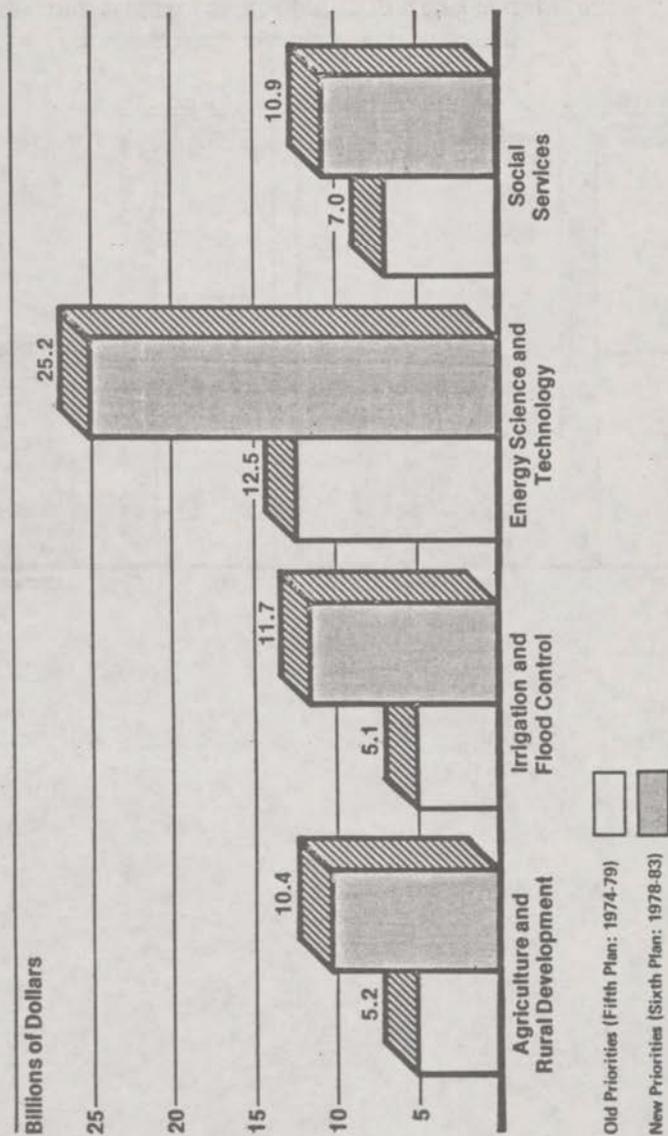
Source: AID Report on "Implementation of New Directions in Development Assistance", July 1975. Appendix 5.

India's Agricultural Production and the Food Deficit in Low Income Countries by 1990



Source: IFPRI

India's Investments in Development Sectors (Old Priorities vs. New Priorities)

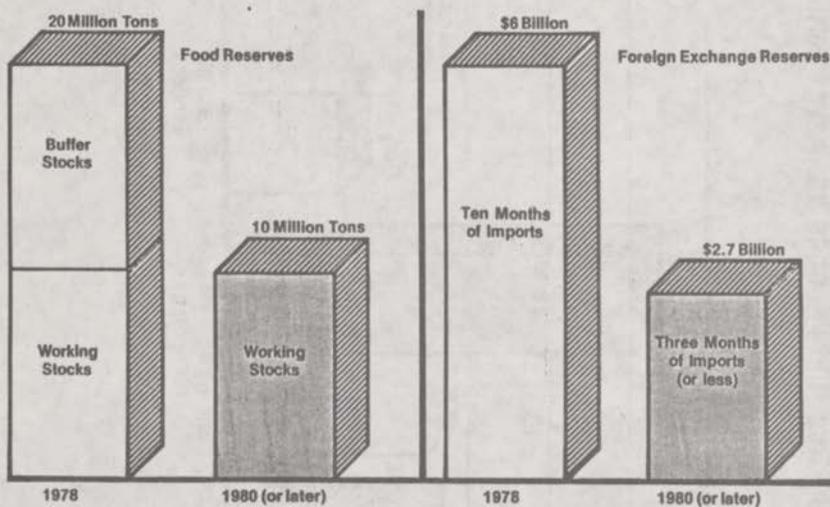


Old Priorities (Fifth Plan: 1974-79)

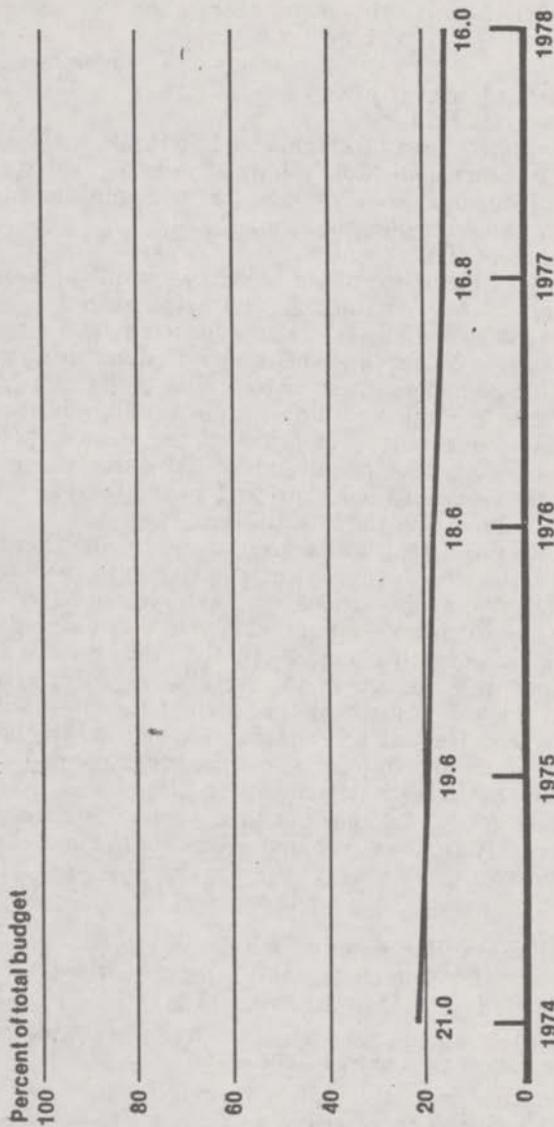
New Priorities (Sixth Plan: 1978-83)

Source: Government of India, Draft Five Year Plan, 1978-83

Reduction in India's Grain and Foreign Exchange Reserves
(Likely Result of Two Consecutive Adverse Monsoons)



Defense Expenditures of the Central Government of India Fiscal Years 1974-1978



Larger percentages of funds are available for development purposes, as defense expenditures decline as a percent of total budget.

Source: Government of India Budget

Mr. GILLIGAN. Now, sir, we would be pleased to attempt to respond to any questions you or the committee might have.

Mr. LONG. Thank you very much, Governor.

Let me say I don't want to praise you too much because I think if I did you might lose your job.

Mr. GILLIGAN. Feel free.

Mr. LONG. Let me say though that I do think, to date, you have been the most conscientious, able administrator of our foreign assistance program. I do think that you are the first administrator who really, genuinely, wanted to do a good job.

Mr. GILLIGAN. Thank you, sir.

Mr. LONG. I think one of the things we want to be sure of is, is the current Government of India any more committed to helping its poor than the past governments? I have looked at India, have been there several times, looked around the country. I don't think you have to be a deep thinker or a close observer to realize that India is two countries. It consists of about 100 million people who live in the urban sectors who are the bureaucracy, the military, the business people, et cetera; and another 500 million people, who are the little villagers, and that so far, at least from any observation I have ever had, the 100 million couldn't care less about the 500 million.

As a matter of fact, I have a sneaking suspicion that they prefer not to see them develop, because it means an end to their political power, because when you raise economic power you share political power; it means an end to cheap servants. And you haven't lived until you have eaten dinner at a rajah's home. Actually, I didn't eat at a rajah's home; I ate dinner in a home that formerly belonged to a rajah, occupied by the AID administrator of that area at the time, with one servant for each guest. He was an economist. I had known he was an economist, and he was out to impress me. He sure as heck did. I am not sure he impressed me in the way he wanted to impress me.

You don't get the feeling that this is something that the well-to-do are particularly anxious to change. We want to make sure it is going to help the poor.

BANGLADESH

Let's talk about Bangladesh for a while.

The Center for International Policy recently issued a report entitled "Bangladesh: Aid to the Needy?"

Like the deep tubewells before them, the World Bank's shallow tubewells will add to the wealth of the country's landed elite.

I am quoting from this policy report. There were two people who lived in the village for 2 years, so they got to see the thing as very few of us ever do.

"Less than 10 percent of the rural households now own more than half the country's cultivable land"—this is Bangladesh, one of the very poorest countries in the world—"while more than 60 percent of rural families own less than 10 percent of the land.

The village potentates of northwestern Bangladesh were not the only beneficiaries of the two tubewell projects; corrupt government officials took their share in the form of sundry bribes and kickbacks.

But the man who appears to have benefited most from the tubewell project is neither a government official nor a village landlord; he is a private businessman named Jahural Islam, reputed to be Bangladesh's richest citizen.

Little of the new wealth which foreign aid has bestowed upon the rich of Bangladesh is ever channeled into productive investment. Many wealthy Bengalis prefer the security of foreign bank accounts.

As a result of the project, the largest landlord gets the tubewell for his own land. It is distributed first to those with political clout, then to those who pay the highest bribes, or distributors are more responsive to bureaucratic superiors who want to maintain rural power structure than to the needs of the peasants. The landlord uses the tubewell for his own 30 acres. He sells some extra water at high rates to peasants. The tubewell is underutilized; it causes a great increase in the landlord's wealth. The landlord buys the land around him from the peasants from whom he is able to keep enough land so they can cultivate it, which causes a slight increase in employment, but at lower pay rates. It causes an increase in the number of landless peasants.

The landlord doesn't place the wealth back into the economy but buys imported luxuries, and there is an increase in rural economic stratification.

That is the kind of thing I think we all deplore and that is precisely what has been happening in our foreign aid program for most of the history of our foreign aid.

That is what I want to make sure we are not going to get into all over again, Governor, because you had no part in all this corruption of foreign aid and you can take a new look at it, and I know you want to do the best you can.

Mr. GILLIGAN. Mr. Chairman, let me say to you that my colleagues and I at AID share the indignation which you and members of this committee and other Members of Congress have felt about stories like the one you have just outlined.

After the Congress acted last year, suggesting the resumption of a bilateral program with India, following the parliamentary elections in which a new government was elected, I made a trip to India last January. Mr. Sullivan was with me, and we spent the better part of 2 days with the permanent secretaries of all of the major cabinet departments of the Indian Government, attempting to find out precisely what their philosophy of government was, and rather than talk about philosophical principles, we wanted to know where they were going to put their money, what they were really investing in; and they sat with us at a table about twice this size for, as I say, the better part of 2 days, as we went through their own economic plans and their own budgetary proposals.

Their Five-Year Plan was not complete at that time, although they had the basic outline of it in hand. Their budgetary proposals later submitted to their congress were in almost final form.

We became convinced on the basis of the obvious switch, in terms of budgetary priorities of the Indian Government, away from heavy industrial development to rural development throughout the 500,000 villages of India, and the other programs they outlined in the fields of health and education, of employment and so forth, concentrating on the rural areas, and as I said a moment ago, the commitment of something in the magnitude of \$40 billion out of the Indian budget over the span of five years to increasing employment and effective demand for food in these areas, we became convinced that they were really serious about the problems of the poor in their area.

Mr. Desai, whom you have met and talked to, is a most impressive man.

Mr. LONG. He surely is.

Mr. GILLIGAN. And Mr. Sullivan and I visited him in his home, and we spent an hour and a half with him while he discussed his own desires to move India off on a new course.

It was following that, that we sent a team of experts from the United States out to India, to discuss with them over a period of time precisely what we could do in order to assist them in getting this program underway.

After they returned to this country, we drew out of their report specific proposals which confirmed the high priority of the proposals, which are now offered, for the examination of this committee.

We then chose Mr. Withers, a veteran career development officer with AID, as the mission director out there, and we spent a great deal of time with Ambassador Goheen and with other people in our bureau, to make sure we would have the best person that we could possibly assign to this critically important position.

I assure you he is not living in the home of a maharajah, but in accordance with his own personal preferences, as well as what we consider to be an appropriate lifestyle for our mission people, he is living quite modestly.

Mr. LONG. The amusing thing about this time I was there was that John Lewis, who was the AID administrator in India, was living in Rajah's Row, whereas Chester Bowles, who was the Ambassador, was living in a very modest home that I might live in or any one of us might live in, on some back street. Bowles was not going to live in the embassy. I think he wanted genuinely to help India, although I don't think he understood very well how to go about doing it, though I think his heart was in the right place.

Mr. GILLIGAN. We are convinced that the Desai government means business and that their initial plans and programs for assisting their rural poor in India are sound and well conceived, and, furthermore, that there is ample evidence of the fact that they mean to carry these programs through and put their money where their mouth is.

We have, in this first irrigation project, which we are proposing for your consideration, we think, an example of the kind of project which will achieve the sorts of objectives you have laid out and avoid the pitfalls of the kind of problem you just cited in Bangladesh; and if we did not have that conviction, I don't think we would have the temerity to come before this committee and propose the kind of expenditure that we are talking about.

Mr. LONG. You understand, of course, once bitten and twice shy, and this committee is really the memory of foreign aid. Administrators come and go; ambassadors come and go; but members of this committee and their staff members have been here for a long time. I have been on the committee for 14 years.

During the history of our foreign aid program we have put a third of a trillion dollars down the drain, and I think you could make a case that we have done as much harm as we have good. I am sorry to say that, though I think our motives in some cases were good; in other cases I don't think our motives were good. I think we have used foreign aid to sell policy, for the Secretary of State to do all kinds of things. I don't think we were motivated in helping the poor; that was done to get the nod from the liberal Members of Congress who wanted this, and get the people back home, the church groups and all, to say to their Congressman, "Yes, go ahead and vote for it."

I don't think our foreign aid program was ever really motivated to help the poor. I do see a change in that direction under your leadership. I know that you would not want to feel a year or two, a couple or five years from now, that you had unwittingly misled Congress and wasted one great opportunity, because I think, with the increase of population of the underdeveloped world we don't have much in the way of opportunity. We have either got to help them now and get this problem licked, and poverty licked now, or the world is just going to be in desperate straits in another decade or two.

Would you agree with that?

Mr. GILLIGAN. I certainly do agree, Mr. Chairman, and I would further say that that is primarily our reason for being so deeply interested in India, despite the fact that from time to time that government is capable of doing things that irritate us for one reason or another. Nevertheless, if the United States is serious and the Congress is serious, as I am sure the Congress is, in terms of attempting to solve these long-range problems of world poverty and hunger, India is the arena in which that game is going to be played most importantly, and we have to be involved there if we intend to really play a leading role.

Mr. LONG. Mr. Desai told me about some interesting things going on, like light technology, which I would very much like to visit in the recess, if I could.

Mr. GILLIGAN. I was going to suggest that the members of the committee—

Mr. LONG. I would hope to be able to take the whole committee.

Mr. GILLIGAN. I think that would be absolutely marvelous. We can file reams of reports with you, but there is no substitute for really seeing what is going on under the Desai government in India; and if there is anything we can do to assist in setting up such a visit by the members of the committee, I can't think of anything more important that the committee might undertake.

Mr. LONG. Governor, I have used up my time.

The ranking member, Mr. Young?

Mr. YOUNG. Mr. Chairman, thank you very much.

Governor, I want you to know that I would like to see the elimination of hunger anywhere in the world where it exists; but the example that Chairman Long has mentioned about Bangladesh is just one of so many examples of where the assistance, whether it be money or whether it be commodity, has just not gotten into the hands or the mouths of the people who need it.

In your statement on the very first page you say,

Half a billion poor people live in India; that is, 50 percent of the poor in all AID-assisted countries. At least one-quarter of India's 630 million people are underfed and malnutrition is widespread among children.

Governor, the problem that I have with this is, if it is our obligation to resolve the problem that you talk about on the front page of your statement, why doesn't the Government of India have a similar obligation?

FOREIGN GRAIN SALES

Let me tell you what I am talking about: India has sold 50,000 tons of rice to Indonesia. India has sent loans, given, or whatever, 100,000 tons of wheat to Vietnam, with 300,000 more tons promised,

50,000 tons of wheat to Afghanistan, and an undisclosed amount of grain has gone from India to Laos; and in addition India is planning to ship 1.4 million tons of wheat to the Soviet Union to repay a loan, apparently.

Now, if India has the food, whether it is wheat or rice or whatever it is, if India has so much food that they can export it for sale or that they can give it or loan it to other countries, I just cannot understand why India doesn't use some of the same food reserves to feed these starving people that you talk about in your statement.

Mr. GILLIGAN. Mr. Young, I think that the answer simply is one of internal distribution facilities. This is an enormous country with, as has already been said, 630 million people spread through 500,000 small villages and countless numbers of farms. Lots of people who are hungry are the small farmers, subsistence farmers, and the landless and unemployed people of India, people my son referred to after a visit there a couple of years ago as "the left-over people." They are people who have no part of the economy; they own no land; they have no steady employment; they have no prospects.

The Desai government, as I tried to point out in my earlier statement, recognizes this problem, has committed the expenditure of \$40 billion to the development of an economy in these rural areas which will provide what the economists refer to as effective demand for those foodstuffs.

There is no way they presently can be distributed throughout India on a give away basis or any other. The amounts of food which are being loaned to Vietnam and to other places are really minuscule compared to the needs throughout the Indian countryside; and what they are really confronted with now is that they have food in store amounting to close to 20 million tons. A portion of that 20 million tons, I think most of us would say, ought to be distributed to the people in the countryside who are still hungry.

I think the Desai government is making efforts to do that. At the same time that they are, they have certain international commitments, as, for instance, you mentioned the one of outstanding debt. They had to get grain earlier from the Soviet Union which they are now required to repay. They are lending grain to other nations in Southeast Asia which they hope to get back when their own larders are reduced to some degree.

I think that given the magnitude of the problem, they are doing a reasonably good job.

Mr. YOUNG. Governor, will they repay any U.S. grain being sent over there? They are repaying the Russian grain. Will they repay any of our grain?

Mr. GILLIGAN. They don't repay us in grain. On earlier loans that this Government has made to them, cash loans of various kinds, or under the P.L. 480 program, they have kept their payments up. So far as I am aware, they have not been in default on any of their previous obligations. As a matter of fact, if the United States does not initiate a new bilateral program with India, the reflow of earlier loans to the United States will be greater than any flow from the United States to India. In other words, they will be sending more money to the Federal treasury than we are sending to them, which is an anomalous situation, I think we would all agree.

Mr. YOUNG. That is very interesting. They will be sending more money to the Federal treasury than we will be sending to them?

Mr. GILLIGAN. Yes, sir, if we do not initiate a new program. The repayments are about \$150 million a year to us.

Mr. YOUNG. How do you justify that one? Under our P.L. 480 program most of it is a gift. Most of it doesn't require any repayment at all.

Mr. GILLIGAN. Title II is a gift.

Mr. YOUNG. Yes, and that is much larger than Title I. In FY 1978 the Title II funds were \$94 million; the Title I funds were only \$27 million and Title I funds to India are repaid in rupees.

Mr. GILLIGAN. All I can say is that over the years the indebtedness incurred by India for Title I and for other loan programs has mounted to the point that their repayments to the Federal treasury now run in the magnitude of \$150 million a year, which is a very sizable sum, and if we don't get something else going their reflows will be greater than our output to them.

Mr. YOUNG. It looks to me like the economy of India is in pretty good shape. They have plenty of food, but instead of giving it to their hungry people, they are either selling it or giving it or loaning it to other places in the world.

You talk about their repayment to the Federal treasury. It is very interesting to me that the Indians own approximately \$774 million worth of our national debt; in other words, we have actually borrowed that from them and we are paying them interest on that \$774 million of our national debt. Their economy must be in pretty good shape. Our economy is such that, as you know, just yesterday the American dollar hit an all-time low in Japan, as it relates to the yen.

You know that in order to beef up the dollar in the world market we have sold 300,000 ounces of our own gold in May, 300,000 ounces more in June, and there will be another 300,000 ounces sold in July, August, September and October, for a total of 1.8 million ounces of American gold that will have been sold. That is more than 61 metric tons of gold that we have to sell to try to bolster our dollar.

At the same time that we are doing this, India's economy is such that they are able to buy gold from the International Monetary Fund. India was the largest purchaser of a recent International Monetary Fund's gold sale.

Now, stories coming in from all over the American newspapers and international newspapers say that India's crops are setting records, that they have tons and tons of grain in storage, but yet you still come back to us and say that one fourth of their 630 million people are underfed. I just can't understand. Maybe I have a hard time communicating.

I apologize if that is the problem, but I can't understand the Government of India having that strong an economy, a positive balance of trade situation, as compared to our great deficit, and they are selling or giving away their grain rather than feeding their people who are underfed.

I say the Indian Government has an obligation to those hungry people and I frankly don't think they are meeting it.

Governor, if somebody doesn't raise this issue, we are going to continue to send, and to send, to India and to Bangladesh and all these

other places where the programs are ripped off and the poor people never get it, and those governments are never going to do their share of feeding their hungry people—I don't particularly relish playing the role of the point man in focusing criticism on these various programs—but if somebody doesn't do it, it is going to be business as usual. Our resources are going to India and Bangladesh and all around the world, while they use their own resources for whatever they are going to use them for—to buy our gold, number one, to create their own foreign aid programs throughout the world, number two.

While based on your statement, one-fourth of 630 million Indians are underfed, they are still sending thousands and thousands of tons of grain out of India?

Mr. GILLIGAN. Mr. Young, let me say that I think it is quite proper and appropriate for you to raise these questions and to explore these matters. At the same time, I think these matters need to be dealt with, with a certain degree of precision.

The point is, and we have readily acknowledged it and the Indian Government will acknowledge it, that they have a society that does not presently have an economic system which is capable of moving food, health care, education, housing, all of the needs of society, in adequate measure to all of their people. These people are, as I say, the leftover people; they are not part of the economy today; they cannot exercise effective demand; they can't pay for the things they need.

It is precisely with that problem of building up effective demand within those lower income groups that the Desai government is presently involved; it can't be done on a fortnight, and I think we would be the first to acknowledge in this country that a welfare program is not a real answer.

The answer is to try to reform the economy to get effective purchasing power into the hands of the people.

Now let me give you just one example of one of the programs that we have laid before you: We have insisted with the Indian Government, as we have insisted with other governments, that it really is economically sound as well as in the humanitarian interest of the government to assist these low income people, especially the rural poor, to develop purchasing power.

In the irrigation project, the Gujarat Irrigation Project, which we have submitted as one of the programs for your consideration, the farmers who will benefit from it are currently operating a subsistence level, earning a net annual income of \$222 to \$525 per farm, which is about \$45 to \$105 per person. The major constraint on farm production in this relatively dry western Indian state is the lack of irrigation facilities.

In areas to be impacted by the project, 94 percent of the people in that area live below the poverty line by international standards of \$150 per capital. Those are the people that we are out to assist and we are trying to assist the Indian Government in an irrigation project that is designed to get directly to those people.

Mr. YOUNG. I understand that, but in the example Chairman Long gave us, of the tubewell project in Bangladesh, it seems that the same situation existed; 94 percent of the people were poverty stricken but they are not the ones who got the benefits of the project.

How can we be sure that the 94 percent are going to get the benefits of this project and not the six percent?

Mr. GILLIGAN. Because this project has been designed to benefit this 94 percent who are poor, to the extent that the 94 percent living below the poverty line will be reduced to 35 percent by the completion of the project.

This project isn't just laying out those canals and those irrigation facilities and hoping against hope that somebody is going to benefit from them; it is designed through a lot of the aspects of the program to assure the fact that these poor people are going to be the beneficiaries of the program and that they are going to rise above that poverty line in significant numbers.

Mr. LONG. Governor, I think the time of the gentleman has expired, and I would just like to interject a point here:

This is an article by Hobart Rowen, who is a recognized liberal, right?

Mr. GILLIGAN. Right.

Mr. LONG. He says, "If hard conclusions are risky, some impressions may nevertheless be offered. And the most important of these is that economic development strategy as pursued for the last 25 years has failed to reduce poverty in India or to increase the standard of living."

I have been saying this for a long time, and people say, "Oh, no, you just don't understand."

Continuing, "World Bank data suggest, as a matter of fact, that a large percentage of the rural population is worse off than it was 15 years ago."

This is not what you people tell us when you come before us for various hearings.

Here is the point I want to make: You say they have a good agricultural year, so good that they can lend food to Vietnam. How do they get that food? That food is gotten by bringing it from the provinces into the central cities to wharves where they load it on ships. If they have the transportation to do that, why is it they don't have the transportation to deliver the food out to the poor people?

As a matter of fact, why are they taking food away from poor parts of the country when people don't have enough to eat, in order to send it to Vietnam? I think we have to conclude there is not at present the will to help the poor.

You say you can't have them live on welfare. I agree. As a long-run objective, this is not what we want to do for India. We want to build up effective demand, and effective demand means production power, earning power; but in the short run I thought the whole idea of our food program was to keep people from starving to death.

Mr. GILLIGAN. Yes, sir; it is.

Mr. LONG. I tell you, there isn't anything more heart-rendering in this world than to go through an Indian city and see poor, desperate people living out on the sidewalk, with no home at all, a father and a mother and a kid around a little fire, with nothing to eat, no place to go. It breaks your heart.

You mean to say you don't think they ought to take some of that food and help those people, or merely turn around and say we are not in the business of welfare, when that is what I thought was the idea of the United States? We are giving this food to them. We give good away but

they don't want to give their own food to their own people; is that what you are saying, Governor?

Mr. GILLIGAN. No, sir. The food that we are giving to them under the P.L. 480 title II program is going directly to the needy people; and we can demonstrate that it is.

Mr. LONG. Is it given to the needy people or is it given to the government, which turns around and sells it?

Mr. GILLIGAN. There are maternal/child health programs in which the food is given directly to the needy people.

Mr. LONG. Some food is?

Mr. GILLIGAN. Some of it, under Title I, is handled by the government, sold for various purposes, and the proceeds from the sales—

Mr. LONG. I think the problem that bothers Mr. Young is, is it true that there are no starving people in India?

Mr. GILLIGAN. No, sir; there are seriously malnourished people throughout India.

Mr. LONG. Yet we are told the reason why they are sending food to Vietnam is because they have more food than they know how to distribute to their people; they don't have the means of getting it out to their people?

Mr. GILLIGAN. Yes, sir.

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

I would much rather help the Indians by sending some trucks to get this food out to the poor people than to send them more food and to have it sit around and rot and/or get eaten by rats or get sent to Vietnam.

Mr. GILLIGAN. That is why it is being sent to Vietnam, as in times past it has been sent on loan to other nations in Southeast Asia, because they didn't have the storage facilities. The World Bank is helping them to build those storage facilities and we propose to help them. They have to keep strategic reserves of food to stave off famine. They have been the beneficiary of three good monsoon seasons in a row, something that hasn't happened in history.

Mr. YOUNG. There is a famine in effect in India today for 157 million people?

Mr. GILLIGAN. No, sir; it is a relative statement, if you will.

Mr. YOUNG. If they are starving?

Mr. GILLIGAN. Six hundred and thirty million people is the total population of India. We have not said, nor has the Chairman nor anybody else that I know of, said that all of those people are starving.

Mr. YOUNG. You said one-quarter?

Mr. GILLIGAN. One-quarter; that is still an awful lot of people. What we are saying is that they do not presently have the means to distribute that food to those people effectively.

Mr. LONG. In what sense don't they have the means? They don't have transportation?

Mr. GILLIGAN. They don't have the funds with which to set up a food distribution system throughout India, across that whole subcontinent, to reach all those people with food. The cost of it would be enormous.

Mr. LONG. Wait a minute. They are lending it to Vietnam.

Mr. GILLIGAN. We are talking about 100,000 metric tons.

Mr. YOUNG. Four hundred thousand.

Mr. GILLIGAN. All right, 400,000 metric tons out of a strategic reserve of over 20 million.

Mr. YOUNG. That will feed a lot of hungry people.

Mr. LONG. As Governor of Ohio, if you had ever been caught sending food out of your State when you had that many people hungry and starving, wouldn't you have had a hard time explaining it?

Mr. GILLIGAN. Sir, there was food exported from the State of Ohio to India, among other things, while we had a lot of hungry people in the State of Ohio who were living on welfare incomes that weren't adequate to support them at a decent level; and it was a shame to me, but I was unable to get a legislature to vote for higher levels of welfare payments for these people, and food from Ohio farms is being sent to countries all over the world.

Mr. LONG. But you weren't out at that time justifying it.

Mr. GILLIGAN. I couldn't do anything about it. You know, if I could go in and change by some magic wand the situation in India, to enable them to deal better with problems that have existed for hundreds of years, I would like to do it. We are now trying leverage to support a government that has now launched very recently on a new program.

Mr. LONG. Or says it is?

Mr. GILLIGAN. That is right.

Mr. LONG. But those things have been said ever since I have been involved with the foreign aid program, Governor.

Mr. GILLIGAN. OK.

Mr. LONG. Once bitten, twice shy.

We have been sold this so many times, it is like the Vietnam war. I served on the Armed Services Committee for 2 years. Then I went on the Military Construction Subcommittee of the House Appropriations Committee and for the entire 10 years of the war, every time they came before us, they told us the same thing. "We are Vietnamizing the war."

Mr. YOUNG. Mr. Chairman, let me ask one question at this point.

Mr. LONG. I am wondering whether we aren't getting the same thing.

Mr. YOUNG. I realize we have used more of my time.

Mr. LONG. Mr. McHugh has been very patient.

Mr. YOUNG. Yes, he has. He has been a very fine gentleman.

I have to ask the Governor this question for the record, talking about leverage:

Governor, is it our intention, and do we expect to get leverage for this aid program that we are talking about today?

Mr. GILLIGAN. I am not sure I understand your question. Do you mean to get influence over the Indian Government's policies?

Mr. YOUNG. You used the term "leverage" just a few moments ago. You said that without this aid we would have no leverage with the Indian Government.

My question is, do we expect to get leverage with the Indian Government for this program?

Mr. GILLIGAN. Only in a very restricted sense, sir. I think leverage, the way I was using the term, was that we think that by helping them

with financial resources and technology to undertake programs like this Gujarat Irrigation scheme, like the malaria control program, like some of the other things that we put before you, that oil seeds projects, by using what is a very modest amount of American funds to do that, we will lever those problems very significantly through the additional effort that the Indian Government will make; and we hope to be able to demonstrate that these programs are sound politically, economically, socially and every other way.

Am I suggesting that by putting \$60 million into an Indian economy of the size that the Indian economy presently is, that we will gain influence and control over their foreign policy or their domestic policy? No, I do not. I don't think any rational man would suggest such a thing.

Mr. YOUNG. The Indian Embassy said that would not be the case. They told me if the United States is expecting to get any leverage because of this program, "You are mistaken. There won't be any." I just wanted to make sure.

Mr. GILLIGAN. I think we are all in agreement.

Mr. LONG. I don't expect any, but I wish to heavens you people, with the State Department, would stop telling us we are getting leverage out of foreign aid.

Mr. GILLIGAN. It was a term I shouldn't have used, but I meant it in a very restricted sense.

Mr. LONG. They do it all the time. We get told if we don't do this we will lose our leverage and so on. I think we have to be satisfied on this question, and I think the way in which the Indians are treating their present poor out of their own present resources, selling stuff, lending food abroad, when they have hungry people in their own country, it may very well be the best way in which to judge their sincerity, the sincerity with which they are going to administer the programs that you are asking money for.

I have always felt you have to judge somebody you are dealing with by little things; they will always put their best foot forward. You have to look and see what they do on the little things before you can judge whether they are sincere; and I would say that when a country is exporting food to another country when it has hungry people in its own country, you have reason to question the sincerity with which they are going to administer future programs for the poor.

I think the rest of the Congress is going to take the same view when these facts are before them.

You say they will get this food back at a later time when they need it. Could you be sure that if Vietnam were suffering a drought, a crop failure, that it would nevertheless give the food back to India when India was suffering a drought or a food failure?

Mr. GILLIGAN. No, I couldn't be sure of that, nor can the Indian Government.

It is a judgment which they have made and they evidently are willing to take the risk rather than to have the grain sit there and be lost to rodents.

Mr. LONG. I have some reason to suppose it might be for a political reason that this was done.

Mr. GILLIGAN. Could be.

Mr. LONG. So much of our aid has been given for political reasons, not to help the poor, but because we expected to get some leverage which we have never gotten, and now admit we shouldn't even ask for.

Mr. McHugh has been sitting here very patiently listening to us monopolize the time. I really think we have to stop now and let Mr. McHugh have his time.

Mr. McHUGH. Thank you, Mr. Chairman.

It has been very interesting.

Governor, it is always a pleasure to have you here. I don't have the perspective of years that the Chairman does on this committee, which is a disability, and I find what he says interesting.

Of course, as we all know, what he and Mr. Young have been saying has a great appeal to Members of Congress and certainly to the American people who have watched our expenditures for foreign assistance going to India and to other countries over the years, without apparent success. This is a long-term problem, obviously. The dimensions and difficulties are great; but there are these concerns which on their face are very legitimate concerns.

Is this assistance which we are now proposing to provide substantially different in substance from what we have done in the past? In other words, have we made mistakes in the past which we can concede with respect to foreign assistance generally, and with regard to India in particular, but point to the fact that there is a new direction now as Congress used that term in the early 1970s?

Mr. GILLIGAN. Mr. McHugh, let me say that I suffer the same disability. I have been here only 18 months and I can't speak with any great authority about past programs and past activities of this Agency and the United States Government in this field.

I know really only what I have read in voluminous reports and in the committee hearings of the Congress and elsewhere about it.

I think there is a general agreement in both the legislative and the executive branches that mistakes in our foreign economic assistance programs and the programs conducted by other donor nations in past years generally were characterized by a basic misunderstanding of the problem to be dealt with, and it was thought that if these various developing countries could be given some industrial capacity, some loans for quick economic projects of one kind or another, that the whole economy would take off.

It was the Congress that took the lead in identifying the mistakes inherent in that approach and insisting that the United States Government conduct programs that were designed primarily to deal with the problems of the rural poor; and that is the way these programs are designed now.

I can't say from my own knowledge what we did in India in earlier years. I do know that the programs that we are submitting now for your consideration are programs which are specifically designed to carry out the mandate of the Congress, are dealing with the problems of the rural poor, increasing agricultural productivity, increasing nutritional levels, expanding literacy, health care and the other needs of the rural poor. That is what they are designed to do very carefully.

We think they are reasonable and prudent programs and that the Congress will approve them.

Mr. McHUGH. As you know, just to overcome the legitimate skepticism that people have, it seems to me we have to establish that what we do now is substantively more effective, or will be, than what we have done in the past because we can't easily point to great progress from what we have done previously. And, of course, we also have to effectively demonstrate that the Government of India is prepared to make a new commitment to this problem.

In that connection, let me ask you a question. The Chairman has given me an article from the New York Times on Calcutta and it is the type of thing which makes it very difficult for us to defend addition aid. For example, talking about Calcutta, it says, and I quote, "The turf club's stables house 300 race horses, which have more living space per animal, and a considerably better diet of grains and vegetables, than millions of the city's human residents have."

I don't mean to pile on the example which make it difficult for this proposal to succeed, but in order to combat those kinds of things we have to demonstrate the commitment of the Indian Government to social reform.

Do you, or does Mr. Sullivan, know what type of income tax system they have? Is it a progressive system? Is there an attempt within the country to redistribute some of the resources of the very wealthy to the poor?

Mr. SULLIVAN. Mr. McHugh, India has a number of kinds of taxes, including an income tax. As in many developing societies, I would be misleading you if I told you they were completely successful as a means of redistributing income.

They have certain land taxes; they have certain water taxes; they are as successful in redistributing income within Indian society as, for example, our own system or as we would wish it to be.

Mr. McHUGH. Is it a progressive system? Do they have an income tax which is progressive?

Mr. SULLIVAN. They have a progressive system, yes, sir. I can provide details of the system for the record, if you would choose.

Mr. McHUGH. I would appreciate it. If we are going to defend the proposal, as modest as it is relative to the problem, it seems to me this is one of the areas we have to really focus on, demonstrating that the Indian Government in many ways is committed to social reform and to dealing with the problem which the administration is asking Congress to deal with, however modestly.

[The information follows:]

INCOME TAX SCHEDULE

Mr. SULLIVAN. As indicated in the following tables, personal income in India is taxed on a progressive basis.

INDIA—INCOME TAX SCHEDULE

Income range (rupees)	Tax rate		
	Base amount (rupees)	Percent of portion above lower limit	Percent surcharge
0 to 8,000	0	0	0
8,000 to 15,000	0	15	15
15,000 to 20,000	1,050	18	15
20,000 to 25,000	1,950	25	15
25,000 to 30,000	3,200	30	15
30,000 to 50,000	4,700	40	15
50,000 to 70,000	12,700	50	15
70,000 to 100,000	22,700	55	15
More than 100,000	39,200	60	15

For example: (a) Rs100,000 income (US\$12,005) is taxed at 45 percent of total: Rs39,200 base plus Rs5,880 surcharge equals Rs45,080; (b) Rs200,000 income (US\$24,010) is taxed at 57 percent of total: Rs39,200 plus 60,000 base plus Rs14,880 surcharge equals Rs114,080; and (c) Rs300,000 income (US\$35,015) is taxed at 61 percent of total: Rs39,200 plus 120,000 base plus Rs23,880 surcharge equals Rs183,080.

Source: Embassy of India.

Would you indicate for the record, please, what the terms of the loans are, the loans for these irrigation projects and the malaria control program?

Mr. SULLIVAN. Yes, sir.

Mr. McHUGH. Do you happen to know that off the top of your head?

Mr. SULLIVAN. The loans are 40-year terms at two percent interest during a ten-year grace period, and three percent thereafter.

Mr. McHUGH. Thank you.

MALARIA CONTROL

With respect to the malaria control program, I notice one of the insecticides we would be financing is DDT. While malaria is obviously a very serious problem, it raises questions in my mind given the fact that we have rather severe restrictions on the use of that insecticide in the United States.

Can you shed any light on that question?

Mr. SULLIVAN. Yes. Mr. McHugh. The DDT that we are providing is being given under the World Health Organization standards which basically restrict its usage. For example, it is not used for general spraying; it is used for what is called house control of mosquitoes, which minimizes, if not eliminates, most of the danger to human beings.

As mosquitoes become immune to the DDT, as they do eventually, we go to other chemicals—the organic phosphates which are chemicals like Malathion, which work in a different way. Eventually, however, the mosquitoes become immune to that. For that reason, in this program that we are providing a loan to, we have made provision for research into alternate methods of malaria control.

So the answer is, we are very well aware of the potential danger. AID must file an environmental impact statement with each project of this kind, and we will do that if we haven't already. We will be filing one.

Mr. McHUGH. Thank you, Mr. Chairman.

Mr. LONG. Thank you, Mr. McHugh.

It is clear to me—it may not be clear to others—that while this is not a large sum of money in relation to the size of the Indian problem,

it is also a very small sum of money in relation to their financial ability to pay for it themselves or in relation to what they are spending on other things.

For example, you propose \$60 million here. They spent \$3,403,471,000 for defense in a recent year, and it is pretty hard to see the purpose of that defense. Pakistan, next door, is a much smaller country and Pakistan would be the one that would have to do the worrying, it would seem to me. India's nuclear capability is one of the things that has bothered its neighbors more than anything else. They feel it is a stepping stone to nuclear weaponry. Rightly or wrongly, that is what the neighbors feel and they are scared to death.

Then, of course, the upper class of India contains many enormously wealthy people.

No American—I don't care how wealthy he is—could live as well as one of the Indian upper class, simply because the help with servants which you have to have to live that well would cost you so many scores of times more, relatively speaking.

So there are resources to do these things in their own country and pay for it themselves.

All that aside, I would still be willing to approve this program if I were convinced that there was real integrity in India. I know Prime Minister Desai is a very pleasant person. I was intrigued by him. When I left him I said, "I now can see why you are the Prime Minister of India;" 82 years old, a remarkable person. But we have gone through such a long time now with India, pouring vast sums in, not seeing it go to help the poor. As a matter of fact, seeing the poor sink, fallback, relatively speaking. I don't feel as a member of this committee, with the responsibility for making sure that money is wisely spent, that I can approve of this program without reservation.

What we are able to do, is just a drop in the bucket. I want to see our money go where it is going to be the most effective, and I can't say that I am very convinced, in spite of all Mr. Desai's geniality and persuasiveness, I can't be persuaded that it is going to help their really poor. There is plenty of grain in the country right now but, instead of feeding their own people, they are shipping it out elsewhere, to a country that won't necessarily pay it back in a timely manner.

I can't help feeling this indicates a callous disregard for the needs of their own poor. I can't help feeling that it might not be wise for us at this time to approve this money.

I would prefer, myself, personally, to keep them on tender hooks for another year or two, until they really got the message that if they want more aid from the United States they have to show a genuine sincerity for helping the really poor people in India and not for paying lip service to that.

That is my own feeling, Governor.

Mr. GILLIGAN. Mr. Chairman, with all due respect, I would take great umbrage at any Indian official or official of any other country who said that the Congress of the United States showed a callous disregard for its own citizens.

Mr. LONG. Many Americans say that.

Mr. GILLIGAN. They may, and many Indians may say rude things about their own government if they please, but the fact is that we do have hundreds of thousands of malnourished people within the United

States out of our population of 220 million, and still 40 percent of all the agricultural production of the United States goes into export trade today.

People could put those two facts together and say that that indicates a callous disregard of the plight of hundreds of thousands of poor people in this country. I don't believe it does.

Mr. LONG. I think it does. I think it does, Governor. I think it indicates a callous disregard for the poor people of this country. If we have people in this country who are genuinely underfed because they can't get the money to buy food and not because they don't want to buy the right thing and if it is really true that we are ignoring the food needs of hundreds of thousands of people in this country and sending food out of the country, I say that indicates a callous disregard for our poor, whatever other countries say about it.

Mr. GILLIGAN. I think that is the situation today. I don't think that that problem is solved by talking about not exporting the foods. I think it is solved by attempting to adopt other kinds of measures to provide the malnourished people of this country with the effective economic means to satisfy their own needs.

I think the same problem lies before India, except it is on a much grander scale, because of the size of the population involved and so forth.

If we were to take, for instance, the number of people who are seriously malnourished in India and assume it to be something like a third population—that is, equivalent to the entire population of the United States—and I said that they are exporting 400,000 tons of food, that we had 400,000 tons of food in the United States to satisfy the needs of the entire population of the United States, it obviously wouldn't be a drop in the bucket.

Mr. LONG. You mean it is all right to export food as long as enough is kept in the country to feed everybody? You just go ahead and let them be hungry because if we kept it here it wouldn't satisfy the needy? I would have thought the wise, humane and compassionate thing to do would be to feed the people you can feed with it.

Mr. GILLIGAN. I do, too.

Mr. YOUNG. It would be sort of like our exporting the Elk Hills oil from our Elk Hills reserves when we have such a tremendous need for our own country.

Mr. LONG. Countries do stupid things. Oxenstierna said 330 years ago, "Do you know, my son, with how little wisdom the world is governed?" And I realize that, but I don't approve of it, and wherever I can I try to make my small contribution toward making things run a little better.

Mr. GILLIGAN. Yes, sir.

Mr. LONG. And I am not going to approve a program which I think is wrong merely because another program is wrong. I don't think two wrongs make a right, and I will do what I can, and always have, toward seeing that poor and hungry people are fed, provided there is a genuine need to feed them.

Mr. GILLIGAN. Yes, sir.

Mr. LONG. So I don't think it is proper to argue that because we do have some people in this country who aren't adequately fed that we should continue to give aid to India which takes its food and loans it

abroad instead of feeding their own poor people. I just don't see that that is in the same—

Mr. GILLIGAN. No sir; I wasn't attempting to make that argument.

I would say there are two different kinds of problems; but I also wouldn't want it to remain the impression of the committee that progress hasn't been made in India in recent years.

Mr. LONG. Here is a statement I want to read back to you by Hobart Rowen: "World Bank data suggest, as a matter of fact, that a large percentage of the rural population is worse off than it was 15 years ago."

Mr. GILLIGAN. Yes, sir.

Mr. LONG. We have figures from another source which indicate the same thing.

Mr. GILLIGAN. I am willing to accept that statement.

Mr. LONG. We have had a couple of good, hard investigations in recent years, in India. It is not a trend; it is a fluctuation; so, for once, they are in a position where they did have some food. Instead of feeding their own poor, they ship it abroad, which, I think, is callous and not reassuring as to what they are going to do with the aid that you now ask us to give.

Mr. GILLIGAN. Despite Mr. Rowan's statement, the facts are that over the past 20 years life expectancy in India has increased from 32 to 57 years. Infant mortality has declined from 140 to 122 per thousand. Population growth has declined from 2.4 to 2.1 percent. The proportion of children enrolled in primary schools has increased from 20 to 65 percent—all that in one of the poorest societies on the face of the earth, so I think there has been some progress.

As I attempted to say in my opening statement, the great battle between world hunger and poverty and increased agricultural production and so forth is going to be waged within the Indian society.

I think the United States has a useful role that we can play. I would not, Mr. Chairman, come before this committee and request the approval of funds if I thought for one moment the funds were going to be wasted or were not going to be used for purposes which in the long run will be directly beneficial to the people of India who need this assistance most. And if I ever come upon any evidence that these funds are being diverted to other uses or misused or that the Indian Government is anything but dedicated to the proposition of assisting its own population to a better way of life, I will come before this committee and ask that the funds be shut off.

Mr. LONG. Well, I think you mean that, but we all have to look at these things not in terms of what somebody else tells us but what we see and observe ourselves. We have to use our own judgment. You realize that.

Mr. GILLIGAN. I agree with that, and that is why I reiterate the invitation to bring your committees to India and see it first hand.

Mr. LONG. I would be inclined to wait before approving such a loan until I have had that trip to India. I have been there twice and I must say that every trip I have made to India has not left me more strongly inclined toward aid to India, but maybe this trip would be different.

Incidentally, when I go, I am going to serve notice that I want an interpreter whom I have confidence in, not the kind that you run into in Doonesbury, but an interpreter whom I have confidence in,

who can enable me to go out and talk to the ordinary guy on the street and find out what he thinks of these programs. I have found, over and over again, when you talk to the ordinary guy you get a totally different story.

Mr. YOUNG. Mr. Chairman, I have a couple of controversial questions I would like to raise, if I could be recognized at this point.

Mr. LONG. Surely.

Mr. YOUNG. Governor, this \$60 million reprogramming, of course, is going to be added to the \$90 million that you have asked for FY 1979; that is \$150 million. When you add up all that we have done for India since we started our foreign aid program, it comes to a large amount of money, so I don't think anybody can accuse us of being pikers when it comes to India. As a matter of fact, it looks to me like our total contribution to India since our foreign aid program began was right at \$9 billion, and that is a pretty good sum of money.

Let's go back to the smaller amount now, the \$60 million reprogramming. Where is that money coming from?

Mr. GILLIGAN. Where is it coming from, sir?

Mr. YOUNG. Yes.

Mr. GILLIGAN. Coming from funds appropriated by the Congress for use in the foreign assistance programs during the current fiscal year.

Mr. YOUNG. Which programs will not be funded when this \$60 million is transferred?

Mr. GILLIGAN. I think from the very outset there was \$60 million within our budgetary computation reserves for the programs in India; is that correct?

Mr. SULLIVAN. There was no money programmed when the Congress asked us to begin an India program. We did have to reprogram. Some of the funds, the bulk of the funds, have been reprogrammed from our program for Pakistan. We have not been able to do planned programs there as a result of certain policy differences we have with that government. We could brief you at length on that point, if you would wish.

Mr. YOUNG. Not at this time, because of the time limitation on the committee, but I personally would like to have that briefing, because I know if you take the \$60 million from some other poor country to feed these poor people, someone suffers, and I would be very interested to know the specifics of that program.

Mr. SULLIVAN. Yes, sir.

Mr. YOUNG. This is the creation, in fact, of a new AID program, correct, the \$60 million plus the \$90 million for FY 1979 is a new program; we do not have an AID program in India today?

Mr. SULLIVAN. No, sir; it is new only in the sense that we are reviving a program. The basic agreements between the United States and India were never terminated with respect to an assistance program.

In this case there was a pause at the time of the last Indo-Pakistani war but there was never a complete breach, so it is a revival of the program.

There was, in the congressional presentation up until Fiscal 1978, a request by AID for a program in India which was never initiated because of differences with the former government in India.

Mr. YOUNG. Refresh my memory and give me the dates. When was the last time we did have a program?

Mr. SULLIVAN. Nineteen seventy-one.

Mr. YOUNG. So this will be the first one in seven years?

Mr. SULLIVAN. Yes, sir.

Mr. YOUNG. Let me ask just one more question, then I will have several to submit for the record.

On the malaria program, maybe I see this all wrong, but this, to me, is another example of the complaints that I have of our foreign aid program.

In our hearings, Mr. Sullivan, you were testifying and Mr. Long said, "Malaria at one time, not too long ago, was at a pretty low level in India, wasn't it?"

"Mr. SULLIVAN. Yes, sir.

"Mr. LONG. Why the resurgence?"

"Mr. SULLIVAN. There are a variety of reasons for the resurgence. One of the reasons is that the vectors, the mosquitoes, became resistant to the DDT involved."

Mr. LONG. This program, I understand, is for DDT, though, correct?

Mr. SULLIVAN. Partially, sir. The mosquitoes have become resistant to DDT in some parts of India. In certain other parts they are not resistant. We try to use DDT where possible as against using Malathion, because Malathion has certain dangers connected with it for the people who apply it. Thus, in certain areas where DDT is still effective we will use DDT. Where it is not effective, we will go to other chemicals.

Mr. YOUNG. Let me go on in this same conversation. In fact, in the same response to Chairman Long you say: "As a result of a prior U.S.-sponsored program which cost about the price of a cup of coffee per recipient, malaria was all but eradicated in India, and as a result the governmental administrative structure that was set up to work on this was dismantled."

There is the problem I have as an example: We go there; we do a job, very effectively, according to you, and all of a sudden we just forget it. We don't pay attention to it and now the great resurgence and the problem is there again.

It seems like the more money we spend on foreign aid, the more serious the problems in the world become.

Mr. SULLIVAN. Mr. Young, the situation with malaria is one which has many ramifications.

I am sure you are aware that the effort against smallpox has been successful and that smallpox virtually has been eradicated as a result of past AID programs and international programs.

At one time, in the 1950s, it was felt that malaria could be eradicated the same way. In fact, in 1958 when Eisenhower was in India on a visit he said that we would eradicate malaria in India. Scientific knowledge moves on and it now becomes clear that malaria probably will never be eradicated. One of the problems is that malaria is harbored in certain monkey populations which then retransmit the disease to people. That was not completely understood in the 1950s.

The second part of this problem is that because people travel between one country and another, because the borders are such that the people move across them, malaria can be harbored in a neighboring

country. In this particular case Nepal never undertook the same kind of program that India did, so that the malaria kept being reintroduced.

At the same time, India did reduce its malaria efforts very substantially as a result of the success of a vigorous program; but as with other countries—and India is not alone in this—as malaria comes under control, people get lax. Just as in this country, for example, we are finding that some very substantial portion of the population is not innoculated against polio at this point.

Mr. GILLIGAN. Forty percent of the American school children.

Mr. SULLIVAN. There have been scientific advances which let us know now that we probably will never eradicate malaria and that the best we can hope to do is to control it in those countries where it is endemic.

Mr. LONG. Mr. Young, it is well after twelve o'clock. We have probably used up our time. Perhaps I could summarize at least what my position is on this.

I think there are vast resources in India itself to deal with these problems in relation to the small amount of money we are being asked to give. In defense alone they are spending \$3.5 billion annually. We are spending too much on defense, but we have a problem of survival. I don't think any American disputes the fact that we are spending the money out of fear and so is the Soviet Union. Each one feels that we are the target of an all-out nuclear war.

I don't know that India has to worry about that. This is more of a problem of defense against a smaller country next door, or against losing a little land on the perimeter of the country, which would hurt their feelings and their pride and all that but would not destroy India itself. As a matter of fact, anybody who wanted to conquer India would be the biggest fool in the world. He would be capturing the biggest headaches the world has ever seen.

So there is a great deal of welfare. They are spending a quarter of a billion dollars a year on nuclear capacity. Now we have tried to get them to sign the nuclear nonproliferation treaty; they refuse to do it; they want us to give them the fuel. We are apparently proposing to give them the fuel although it is scaring the blazes out of Pakistan next door, because no matter what Mr. Desai says, the Pakistanis feel that this is a stepping stone to nuclear weaponry and they are scared and they want nuclear power. Once Pakistan gets nuclear power, the whole thing will be out of political control because each one will suspect the other of the worst, and they will both want nuclear weaponry, and you can predict that about as safely as you can predict anything.

They could tax more of their wealthy people, as has been brought out. I don't think, in other words, that there is any lack of money if they want to make a start on the kind of problems you are talking about. But let me say further that I am not convinced yet—because I have been burned too many times, and maybe I have just gotten unduly cynical—I am not convinced yet that there is a real, earnest desire to help their poor people.

I would want to be sure that these projects are really going to the poor people. That, I think, could be perhaps dealt with in

some small way at least by a trip by this committee to India, and I would propose that we put off any approval of this program in India until the subcommittee has had a chance to go to India, possibly after the election, in November or December, whenever we get a chance, to take a look and see what the programs are and see if we can get some feeling as to whether there is really an earnest, sincere desire to really put India in a new direction of foreign aid, instead of just more of the same thing.

That is my own feeling.

Mr. McHugh?

EXCESS GRAIN

Mr. McHUGH. Mr. Chairman, I would just like to be clear in my own mind on the question which seems to be at the heart of your concerns and Mr. Young's, certainly. Why does India have this excess of grain and why is it exporting the grain when it has so many poor people?

As I understand your argument, Governor, it is, first of all, that many of the poor people in the country do not have the means to purchase the grain; therefore, the Indian Government has made a new commitment of \$40 billion over five years to provide employment and the economic wherewithal to enable these people to purchase grain and other food in the normal way.

Secondly, with respect to storage, India's storage capacity has been completely used; therefore, when it has a surplus such as it does now, there is no place to store grain without it being lost to rodents or other pests. In addition to the first reason, then, that is another reason why some of this grain is shipped abroad. Am I correct?

Mr. GILLIGAN. That is right.

Mr. McHUGH. Am I missing anything in your argument?

Mr. GILLIGAN. No, sir. I think that is essentially it.

What we are saying is that this enormous country of 630 million people, which has been plagued for centuries with problems of poverty, the direst poverty on earth, is making in our judgment, under its new freely elected government a determined effort to tackle these problems; that they haven't solved all their problems by this time is quite evident to anyone who takes a look at the situation.

We are satisfied after extended conversations with the representatives of the Indian Government that there is a real determination there, not just because of the rhetoric or because we have looked at the budget figures, but we have looked at their plans and programs.

Mr. McHUGH. How firm a commitment is their Five-Year Plan, which you have presented and which we are asked to accept as a sign of good faith commitment on the part of the government? It seems to me, based on the figures you have given us, that there is a change of policy, a change of commitment. There is a reduction in defense spending over a period of time. There is a significant increase, as I read the figures, in what the government is prepared to do to allocate its resources to the problems which we are all concerned about.

How firm a commitment is that?

Mr. GILLIGAN. I think so far as the prime minister and his cabinet and his majority within the Congress is concerned, it is a very firm commitment. Obviously, their legislative body, as our own, has the right and the authority to review their budgetary commitments on an

annual basis and to shift them if they think they are inappropriate at any time; but I sincerely believe that as long as the Desai government is in power this will be the major thrust of their administration, and I expect to see it go down that road, and I would like to see our own Government encourage and assist them in that effort.

Mr. McHUGH. Governor, let me ask you another question with respect to the Chairman's suggestion that we defer action on this proposal until after we have had an opportunity to visit India.

What problems, if any, would that pose for these programs which you have proposed?

Mr. GILLIGAN. There would be some problems, in that, I think, my own visit and that of Mr. Sullivan to India in January, the statements that President Carter made on the occasion of his visit a few weeks earlier, conversations that were held both in Indian and in this country on the occasion of the prime minister's visit here, have indicated that the United States was ready to come forward with some degree of alacrity and join in this effort to meet these problems.

I think for the United States now, at this critical moment, to back away and say what we would have to say, that we don't know that we have any faith, that we don't know that Mr. Desai, who has visited here and made these statements, is a man of his word. I don't know whether that creates the kind of atmosphere in which we could hope to have useful and fruitful relations with that country.

It has been said by the Chairman and others here today that the amount of money that we are talking about committing is relatively minor, compared to the expenditures of the Indian Government. Never mind the expenditures of this Government. I think we and our national interest would be far better served by making that commitment promptly, and then having the committee and other Members of Congress, if they are pleased to do so, go to India, review the programs, visit the site of the programs, get a better understanding of exactly what is involved, and go forward on that kind of a good faith basis, rather than expressing skepticism and doubt at the very outset of our new relationship.

Mr. McHUGH. Thank you, Governor.

Mr. Chairman, I share many of the concerns which you and Mr. Young have expressed and I think they are legitimate concerns. Perhaps because I am new and don't have the background of your years here, I am willing to take the risk the Governor is asking us to take. I suppose it is a modest one, given our commitment in the past, the fact that the Indian Government has shown some preliminary indications of good faith, and the fact that we have an administration today that is committed to the same goals they are, I think.

Mr. LONG. I think this is a question of judgment, and let me say about the gentleman from New York, there hasn't been anybody on this side of the committee who has been more faithful in his attendance and has done a better job doing his homework or has asked more intelligent or searching questions than Mr. McHugh, the gentleman from New York.

Mr. McHUGH. Thank you.

Mr. LONG. My feeling is that we are not launching just a one-year program but a multi-year program, and once you start these programs it is not easy to turn them off. The next thing you are told is that you

are going to be wasting a lot of money. I just don't know what this committee is for, Governor, if we are supposed to just take the word of the President or Mr. Desai or anybody else.

I would hesitate to launch us on a long-term program and say, "So we started it; now we can't stop it." I would prefer that we go over there and take a look. That is what this Appropriations Committee is for. Our job is to take a second look, not to take somebody else's word.

Mr. GILLIGAN. Mr. Chairman, with all respect, Mr. Sullivan has a point to make that I think deserves your attention as to what it would mean to follow up on the question asked earlier by Mr. McHugh, what it would mean if we did not go forward during the current calendar year with the proposal that we have committed here.

Mr. SULLIVAN. As you know, Mr. Chairman, the funds for this program are appropriated on an annual basis. So that if this program were delayed until after the U.S. election, the funds for this program would be lost. We would have to start over.

In addition to that, under the CLUSA oil seeds project, we need to sign an agreement for the Indian farmers to study our techniques. They must come here by August 11. If we delay, the program will be set back a year because they have to come during that part of the harvest.

Secondly, the malaria program would have to be signed, as a result of the Indian Government needing to know and for us internal reasons of fiscal control, probably by the 31st of August.

Finally, in the case of the Gujarat irrigation project, we are in this with the World Bank and they need to go ahead shortly.

So if AID does not go ahead at this time, then the entire fiscal '78 program would not be possible.

Mr. LONG. I thought you said the World Bank would go ahead?

Mr. SULLIVAN. They would go ahead with the portion of the project they propose to fund. What would be lost would be the portion of a project we have picked up, for which the Indians have allocated an additional \$15 million of their own funds.

Mr. LONG. I would be willing to meet them halfway, that is, approve the malaria control and the science and technology for rural development which I understand is a light capital technology program. But, hold up the medium irrigation program until we have had a chance to go and see who would benefit. That would be my own feeling of compromise.

PURCHASE OF RUPEES

Mr. YOUNG. On that irrigation project, let me ask a question. I was going to submit this but since we are back on the subject, and let me say I want to join in with the chairman in his complimentary comments on Mr. McHugh. He has done a great job of inquiring and also being patient with us.

My question is: On this \$30 million irrigation project, isn't it true that our funds are going to be used for the Indians to purchase foreign currency? Isn't that the mechanical way?

Mr. SULLIVAN. There is a purchase of foreign currencies, yes, sir.

Mr. YOUNG. Isn't that different from our usual AID approach?

Mr. SULLIVAN. No, Mr. Young. With the enactment of the 1973 New Directions legislation, trying to reach more directly to the poor, AID

has moved from the import of commodities increasingly to the kinds of programs which require the purchase of local currencies in the countries in which we operate.

Speaking for the Asia area, I think there is not a single country program in which there are not such purchases of local currencies.

Mr. YOUNG. How many rupees did we own in India that we recently just wrote off, gave back to them very recently?

Mr. LONG. The present U.S. holdings of rupee is \$800 million or 12 times the sum of money they are asking for in all the programs here.

Mr. YOUNG. Didn't we write off \$2.2 billion worth of rupees we already owned there and now we are going to buy \$49 million more? I have a difficult time with this.

Mr. LONG. You have raised a very interesting point. We hold \$800 million in rupees. Their problem is not one of foreign exchange because it is my understanding that they have a \$5 billion surplus which makes them a lot better off than we are. Why couldn't we simply make them a present of \$60 million worth of rupees which we own and which they don't need for their foreign exchange problem and not give appropriated funds?

Mr. SULLIVAN. In this case there is no real resource transfer to the Indian Government in that situation.

Mr. LONG. But they don't need the transfer of money because they have a \$5 billion exchange surplus.

Mr. SULLIVAN. The second point I was going to make is that of that amount of money in rupees, most of the funds has been designated for specific uses of the United States Government.

Mr. LONG. You mean there is no \$60 million of rupees which has not been allocated?

Mr. SULLIVAN. There probably would be, but the funds can only be used by mutual agreement with the Government of India. Since use of these currencies would not qualify as aid, we would not ask for Indian Government currencies to use them in their official development program, nor would we expect them to agree.

Mr. YOUNG. What about the \$2.2 billion we wrote off? We gave it back to them.

Mr. GILLIGAN. We wrote it off. It is gone.

Mr. YOUNG. We wrote it off and now we are going to be buying some more.

Mr. SULLIVAN. Mr. Young, in the FY 76 A.I.D. appropriation act the Congress asked for a program using some of those rupees for the John McCormack Hospital, a private hospital. We have provided those and that has gone forward. As part of that arrangement, the Indian Government has asked us to use some of those rupees for indigent patient care in other private hospitals.

Mr. LONG. Why don't we give them permission to use them for malaria control?

Mr. SULLIVAN. Because we are financing U.S. commodities, not local currency costs and because it would not be aid for their official development program.

Mr. LONG. Well, we have to answer a quorum call. This is not a formal vote anyway because they don't need legal determination by this subcommittee. So I would suggest that we close the meeting now and we will insert certain questions for the record. We can talk this

over among ourselves either by telephone or otherwise and make our decision about how we proceed on it.

Is that satisfactory to the committee?

Very well, the committee is adjourned. Thank you very much, Governor.

QUESTIONS AND ANSWERS FOR THE RECORD

Mr. LONG. The project A.I.D. proposes to finance are as follows:

Fiscal year:

Application of science and technology for rural development.....	\$2,000,000
Gujarat medium irrigation.....	30,000,000
Malaria control.....	28,000,000
Total	60,000,000

Governor GILLIGAN. That is correct.

Mr. LONG. How can you be sure the current Government of India is any more committed to helping the poor than the past Government? What specific examples can you give us that prove they have this commitment? (Land reform, number of people owning their own land, average size of land ownership, etc., with comparisons from two or three years ago.)

Governor GILLIGAN. The new Government of India is putting very high priority on agriculture and rural development. On February 28, 1978, the Janata Party Government announced the first budget it prepared since taking over last year from the Congress Party. The new budget is aimed at sharply increasing investments in rural projects to provide jobs for the unemployed. Of the total FY 1978-79 annual Plan, Rs. 29.2 billion, equivalent to \$3.4 billion or 25%, has been allocated to agriculture and allied programs such as irrigation and flood control, compared to Rs. 23.0 billion in FY 1977-78. Significant increases are projected for dairy development, small scale industries, rural roads, rural electrification, and water supplies. Various excise duties have been reduced to promote small scale manufacturing units. Annual Plan expenditures in FY 1978-79 for health and welfare are projected at Rs. 3.9 billion, compared to Rs. 2.8 billion in FY 1977-78.

In their new five year plan, high government officials have publicly announced an intent to increase the amount of irrigated land by 17 million hectares, to decentralize and strengthen planning at the grass roots level, to increase research in high-yielding seeds, to expand cottage industries through a package of credit, quality control, marketing network, and other provisions, and to double power generation over the next five years.

The Reserve Bank of India has issued instructions requiring commercial banks to raise their investments in the rural sector, for example, for every new branch bank opened in an urban area, three rural branches must be opened, and a minimum of one-third of all commercial bank lending must be made to the agriculture/rural sector.

Mr. LONG. What evidence do you have that India is shifting away from military and heavy industry programs toward village development?

Governor GILLIGAN. Among other indications of this shift, changes in allocations from the Fifth to the Sixth Five Year Plan are especially notable. For example, the budget for small scale and cottage industries is 14.1 billion rupees in the new plan versus 5.1 billion in the old plan; the new rural roads budget is 10.95 billion rupees compared to 2.0 billion in the last plan; and 2 million rural pump sets will be electrified during the Sixth Plan versus 900,000 in the Fifth Plan.

Mr. LONG. What are India's current defense expenditures and how do they compare to past years?

Governor GILLIGAN. In recent years, although military expenditures have increased absolutely, they have remained relatively constant as a percentage of GNP—at approximately 3.4%. At the same time they have declined as a percentage of total central government expenditures. Proportionately more funds have, therefore, been available for development purposes in the past two years. I have a table which I will be pleased to submit for the record. (The table follows:)

INDIA'S DEFENSE BUDGET¹

	1976-77 budget	1976-77 revised	1977-78 budget	1978-79 budget
Defense.....	2,993	3,077	3,237	3,471
Percent of total expenditures.....	19.6	18.6	16.8	16.0
Percent of GNP.....	3.4	3.3	3.2	3.3

¹ All amounts are in dollar millions converted at Rs 8.50 equals \$1.00.

Mr. LONG. Can you give us the same information for heavy industry and infrastructure programs?

Governor GILLIGAN. Yes, I have a table showing that information. (The table follows.)

EXPENDITURES OF THE DEPARTMENT OF HEAVY INDUSTRIES IN THE MINISTRY OF INDUSTRY¹

	1976-77 budget	1976-77 revised	1977-78 budget
Heavy industries.....	104	142	145
Percent of total expenditures.....	0.7	0.8	0.8
Percent of GNP.....	0.10	0.14	0.14

¹ All amounts are in millions of dollars converted at Rs, 8.50 equals \$1.

The GOI has indicated that it will place less emphasis on heavy industry, particularly capital intensive plants, such as petrochemicals. However, increased public sector investment is contemplated for power generators, aluminum, major engineering industries, for example, structural materials and, to a lesser extent, steel. Another indication of the GOI de-emphasis on heavy industry investment is the fact that the Soviet Union, which in the past has focused its aid to India on heavy industry, does not now have any new aid projects under discussion with India.

We also have an estimate of recent infrastructure expenditures in another table I will provide for the record. We have had to group various components somewhat arbitrarily and there is some overlapping, particularly in the category of irrigation and power. (The table follows.) It should be noted that much of this investment is directly devoted to the agricultural and small industry sectors.

INFRASTRUCTURE EXPENDITURES¹

	1976-77 budget	1976-77 revised	1977-78 budget
Infrastructure total.....	902	851	1,048
Transport and communication.....	293	276	292
Railways.....	306	305	359
Posts and telegraph.....	16	20	49
Irrigation and power.....	287	250	348
Percent of total expenditure.....	5.9	5.1	5.8
Percent of GNP.....	1.0	1.0	1.1

¹ All amounts are in millions of dollars converted at Rs 8.50 equals \$1.

Mr. LONG. What are they spending for nuclear technologies?

Governor GILLIGAN. We have that data, also. (Table follows.)

NUCLEAR EXPENDITURES¹

	1976-77 budget	1976-77 revised	1977-78 budget
Nuclear total.....	266	251	272
Atomic energy R. & D.....	155	149	164
Nuclear power projects.....	111	102	108
Percent of total expenditures.....	1.7	1.5	1.5
Percent of GNP.....	.3	.3	.3

¹ All amounts are in millions of dollars converted at Rs 8.50 equals \$1.

Mr. LONG. You plan a \$30,000,000 medium irrigation project in FY 1978. How does this directly benefit the poor people of India?

Governor GILLIGAN. First, let me say that the farmers in the project area are currently operating at subsistence levels, earning a net annual income of \$45 to \$105 per person, which is poor by almost anyone's standards. The benefits of irrigation in this Gujarat irrigation project will include increased farm income, increased employment for landless laborers, increased food available to poor consumers, and decreased risk of drought. Specifically, with the irrigation benefit of the project, the number of farms below the \$150 annual per capita poverty line will decrease dramatically from 94% to 35% of total farms in the project impact area. The proportion above the \$150 average will increase from 6% to 65%. Furthermore, the unique technical feature of the project—extending lined canals to the eight hectare level—will help to assure access to irrigation water for the relatively poorer farms located at the end of the water courses. Thus, the relative impact would be to reduce, not exaggerate, income disparities in the project area.

Mr. LONG. What does "medium" mean?

Governor GILLIGAN. The term "medium" is used here for projects that will irrigate 2,000 to 12,000 hectares from small tanks or medium sized reservoirs. The distinction is drawn against "major" irrigation using large dams and very large irrigation areas and against "minor" irrigation facilities, such as tube-wells, which can service only a few farms.

Mr. LONG. Is this your answer to light capital technology?

Governor GILLIGAN. No. This is our answer to the most critical agricultural need in Gujarat, India, which is reliable water supply.

Mr. LONG. What is the median size of a small farm in India?

Governor GILLIGAN. We don't have precise data on the median size of small farms in India. The median size of all farms is slightly below one hectare (2.5 acres).

Mr. LONG. Does the small farmer make up the majority of farmers in India?

Governor GILLIGAN. Yes, the Government of India classifies farms of two hectares (five acres) or less as small or marginal; farms below two hectares made up 69.6% of the holdings (49 million holdings), and the median size for these was probably in the one to 1.5 acre range.

Mr. LONG. What is the median size of the farms that will directly benefit from this irrigation project?

Governor GILLIGAN. The median size of farm holdings in the project areas is expected to be between one and 1.5 acres.

Mr. LONG. Will this irrigation project raise the value of the land to a level where the poor can't buy it or encourage the poor to sell their land to make a quick profit? What assurance can you give the committee that some large land-owners will not try to control the water made available by the project and buy up the land held by the poor?

Governor GILLIGAN. Past experience suggests that the value of land will rise substantially as a result of irrigation, but small and marginal farmers who

otherwise might be forced to sell because of low productivity and occasional droughts now will be able to make acceptable incomes on a secure basis. Land, especially irrigated land, is too prized a commodity to sell unless forced, and irrigation protects small farmers from being forced to sell by low yields and drought.

Mr. LONG. What factors are built into the project which would prevent the powerful landowners from buying up the land or reaping the major profits for this project? Are there any laws in India that would prevent this from happening?

Governor GILLIGAN. The Indian system up to now has been successful in allocating and distributing water without monopoly control by a few of the well-to-do. The water and distribution is controlled by the Government. There are laws which limit the size of the holdings. Upper limits are lower for irrigated than for unirrigated land. Therefore, farmers who previously were just below the limit for unirrigated land will have to divide or sell some of their land.

Mr. LONG. Will any of the \$60 million program be used to purchase rupees, considering that present U.S. holding of rupees is about \$800 million?

Governor GILLIGAN. Yes, half of that amount will be devoted to local cost elements of the Gujarat irrigation project and will, therefore, involve the exchange of dollars for local currency within India.

Mr. LONG. Can you provide the committee with details on the need to purchase local currencies for the irrigation project? And why can't we use U.S.-owned rupees? And what will the IDA part be used for—to purchase rupees?

Governor GILLIGAN. Yes, we have that information. The Gujarat medium irrigation project will finance construction of irrigation works such as small reservoirs and canals, which rely on supplies and labor almost entirely from the local market instead of from imports. Both IDA and A.I.D. funds will thus go toward local costs; the only foreign exchange costs will be \$500,000 in short-term consultant services to help establish a river-gauging network, and they will be funded by IDA.

The use of \$30 million of excess rupees held by the U.S. Treasury to finance these local costs would not result in any real resource transfer from the United States to India and could not be considered aid.

On the other hand, when A.I.D. dollars are used to purchase local currency to finance these costs, the recipient government can use the dollars to buy U.S. goods and services. It is this claim against the United States economy that represents the real resource transfer.

Furthermore, in accordance with our agreement with the Indians, it is our intention to use these rupees over the next nine or ten years for other activities, such as:

- Official USG expenditures in India
- Official international transportation
- Contributions to international organizations
- P.L. 480 ocean freight and port charges.

These kinds of expenditures are covered by our agreement with the Government of India. Any new uses, such as financing local costs for the Gujarat irrigation project, would require Government of India concurrence. We do not intend to ask for this concurrence for such official development expenditures nor would we expect to obtain it because no foreign assistance would be involved.

I would also like to point out that A.I.D.'s new directions programs to benefit the rural poor often call for financing such local currency costs. Improved health care, better irrigation facilities, and more schools usually mean local currency expenditures. A.I.D. finances such costs throughout the world.

Mr. LONG. You also plan to initiate a malaria control program. If I am not mistaken, we had a large malaria control program in India in the 1960s, and it was virtually brought under control.

Governor GILLIGAN. That is correct. The Agency assisted India in a malaria control and eradication program from 1953 to 1963. This program successfully reduced malaria incidence from about 75 million cases a year and 750,000 deaths to about 100,000 cases per year with no recorded deaths.

This amounted to a reduction of malaria in the order of 99% over a period of 10 years at an average cost (1960 prices) of less than one cup of coffee per person per year. This program was the largest malaria campaign ever attempted and was one of the most successful.

Mr. LONG. Why has there been a resurgence of malaria?

Governor GILLIGAN. The reasons for the resurgence of malaria are complex. Part of the explanation lies in the overwhelming success of the program in reducing malaria from the number one disease problem in India to relative insignificance which led to a corresponding reduction in budget and personnel. Other contributing factors, which varied from state to state, included the following problems:

1. Lack of adequate health services to maintain the gains made;
2. Failure of health services to grant high enough priority to vigilance against return of malaria;
3. Short supply and untimely receipt of imported insecticides and anti-malaria drugs;
4. Migratory habits of the population in certain states;
5. Mosquito vector resistance to the insecticides;
6. Non-implementation of urban malaria control measures;
7. Inadequate financial resources and technically trained manpower; and
8. Diversion of resources from the malaria program because of the war with Pakistan.

Mr. LONG. Is this an example of how the Indian Government is unable to conduct their internal affairs with any sort of efficiency?

Governor GILLIGAN. This is not a question of efficiency but of realizing that malaria cannot be eradicated, although it can be controlled. The Indians, with the assistance of the World Health Organization (WHO), have revised their malaria strategy to put the emphasis on selective control of the disease. The Modified Plan of Operations reclassifies the entire country on the basis of incidence of the disease and allocates resources accordingly. Additional technical personnel have been assigned to the program.

Mr. LONG. How can we be sure the Government is capable of using our assistance in a useful manner?

Governor GILLIGAN. The Government of India has allocated 75% of its national health budget to the malaria control program. In addition, the states are providing further budgetary and manpower support for this effort.

A.I.D. will contribute U.S. produced insecticides, larviciding agents, anti-malarial drugs, and power sprayers to the effort until the Government of India can increase its own production capacity. Other donors include World Health Organization, the United Nations International Children's Emergency Fund, and the United Nations International Development Organization.

Mr. LONG. By far the major part of the \$28 million request for malaria control will be used to purchase malathion and DDT. Are these insecticides still widely used in the United States? What safeguards are taken to insure that the insecticides are properly used and that accidents are cut to a minimum?

Governor GILLIGAN. DDT no longer is used in the United States. However, for combating malaria, DDT is the least toxic and least expensive of all insecticides. Moreover, where it is still effective, DDT still is considered the most appropriate weapon for combating the disease. On the other hand, malathion still is being used in the United States and is effective where mosquitoes are resistant to DDT.

Measures for the proper care and handling of these insecticides are built into each project. The Government of India ensures that insecticide handlers use special protective clothing and have properly functioning equipment. Additionally, malaria control personnel are trained in the proper handling of insecticides and are made aware of the dangers associated with their use.

In line with WHO and A.I.D. specifications, the GOI maintains strict quality control over insecticides procured for the malaria control program to ensure proper formulation, and adequate and safe storage. The GOI also is required to assist in preparing an assessment of the malaria control project on the environment. These findings will be incorporated into the program, and we will conduct annual evaluations of the project.

Mr. LONG. What will be the total U.S. contribution to this malaria control program?

Governor GILLIGAN. The United States is contributing \$38 million over a two-year period to this emergency effort.

Mr. LONG. Will all the insecticides and equipment be purchased in the United States?

Governor GILLIGAN. Depending on availability of these commodities, all insecticides and equipment financed by the U.S. contribution will be purchased in the United States.

Mr. LONG. What types of projects will be funded under the "Application of Science and Technology to Rural Development?"

Governor GILLIGAN. Project activities will include such things as new appropriate technologies for village level industry, fast growing trees for rural energy, environmental preservation, and solar cells for running pumps in small-scale irrigation projects. As the primary consideration, projects will be judged on the relevance of the concerned technology to immediate problems in rural areas.

Mr. LONG. Will this project be confined to light capital technology projects?

Governor GILLIGAN. The activities will relate to the development, production, and testing of small and inexpensive units that could be used to serve individual homes and villages.

Mr. LONG. The Senate also has a hold on the obligations for the FY 1978 India program. Will it be willing to lift its prohibition on the obligation of funds?

Governor GILLIGAN. Yes.

Mr. LONG. Why do you need action on the FY 1978 India program now?

Governor GILLIGAN. A.I.D. has been discussing with the Government of India for many months a \$60 million program for FY 1978. These talks were initiated at the request of the Congress in the International Development and Food Assistance Act of 1977. The Agency notified Congress on May 2, 1978, that we proposed to proceed. We have delayed obligations two and a half months at the request of the House Appropriations Subcommittee.

We must move forward now (1) to enable the Indians to make orderly plans for combating malaria, expanding irrigation, and promoting new technologies for the rural poor, and (2) to permit a team of Indian cooperative leaders to visit the United States in August for training prior to the Indian oilseed harvest.

Moreover, Section 102 of the Appropriations Act of 1978 provides that not more than 20% of any item shall be obligated during the last month of availability. Our malaria proposal for India represents over 20% of the health account, and we need to obligate it before August 31. In planning Agencywide targets for the food and nutrition account, we have also planned to obligate the Gujarat Irrigation Project before August 31.

Mr. LONG. You plan to allocate \$60 million to India in FY 1978 and \$90 million in FY 1979. How large do you expect the annual U.S. program to grow to in the next five years and what would be the largest annual program you would anticipate for India in the near future?

Governor GILLIGAN. A medium-term India strategy team has completed its draft report with recommendations for aid levels through 1984. The executive branch will review their recommendations, taking into account overall budget requirements and priorities. It is, therefore, premature to estimate the size programs which may be proposed for India after FY 1979.

Mr. LONG. How big a staff do you plan to locate in India initially?

Governor GILLIGAN. The American staff level is planned to be 10 for FY 1978 and 15 for FY 1979.

Mr. LONG. What would be the maximum size of the staff when the program is in full swing?

Governor GILLIGAN. Beyond FY 1979, the staff level will depend very much on the type of program approved for the next five years. Our objective in staffing the India Mission is to maintain a small resident staff consistent with prudent program management.

Mr. LONG. What would be the annual costs to support this staff in India when you include all costs (operating expenses)?

Governor GILLIGAN. The cost would depend on the staffing level. For example, at a level of 15 Americans and 55 local employees, the operational cost would be about \$1.5 million at current prices.

Mr. LONG. What are your plans for acquiring buildings, housing, etc., in India? Do you plan to build another large complex like you did before or would you rent all the facilities?

Governor GILLIGAN. We plan to use existing Embassy space for USAID offices and to rent any additional housing required. We have no plans to build a large complex of building in New Delhi.

Mr. LONG. When the United States was in India before, there was a great resentment towards us because they felt too dependent on our assistance. In addition, the Indians built up a large debt burden on which they are still paying. What is the size of the debt India owes to the United States and what is India's total external debt?

Governor GILLIGAN. The size of the debt that India owes to the United States currently totals \$3.5 billion. India's total external debt is estimated at \$11.7 billion.

Mr. LONG. Most of the program funds you are requesting for India will also be made on a loan basis. Will India be able to repay these loans? In dollars? Or are we going to start accumulating large amounts of rupees again?

Governor GILLIGAN. India is clearly capable of paying back dollar loans made by the United States. India's past record of debt repayment has been good. The Government of India wishes to maintain its very good credit rating in international financial markets. Further, India's annual debt service, now running around \$826 million, including about \$150 million to the United States, is manageable in the context of the country's growing exports and foreign exchange reserves. Debt service payments are now only about 14% of export earnings.

All future repayments of loans will be made in dollars, as there are no rupee-repayable loans outstanding, and A.I.D. loans are no longer made for repayment in local currencies.

Mr. LONG. What are the U.S. holdings of rupees at the present time?

Governor GILLIGAN. As of December 31, 1977, U.S. holdings of rupees were Rs. 6.7 billion, which is about \$810 million at an exchange rate of 8.5 rupees to one dollar. These rupees are being drawn down steadily through budgeted expenditures on established uses. Approximately \$59 million was utilized in FY 1977. Our Embassy in India estimates future annual usage of \$70 to \$90 million equivalent. If this rate is realized, the current balance would be fully expended in nine or ten years, and U.S. holdings of rupees would cease to be "excess" to normal requirements in seven or eight years.

Mr. LONG. Will the Indians still feel resentment toward the United States when we begin the A.I.D. program or do you think they will be grateful to us?

Governor GILLIGAN. Whether or not the Indians will resent a resumed bilateral aid program depends in large part on the type of program we have there. If we follow the general strategy we hope to pursue—conformity with India's priorities, use of Indian institutions and manpower, well-focused projects, small U.S. staff—there should be a minimum of friction. Our aid program should be a fruitful and cooperative enterprise in the economic development of India. When I was in India, officials expressed gratitude for past assistance.

Mr. LONG. I note you do not plan to begin a population planning program in India. Is this because the Indian Government is not receptive to population planning because of a backlash from the Indira Gandhi's episode?

Governor GILLIGAN. The Government of India is promoting an integrated approach to health and family planning. They have requested U.S. Government involvement in this program, starting in 1980 or 1981. We were not involved in FY 1978 or FY 1979 due to the events that evolved as a result of Mrs. Gandhi's actions.

Mr. LONG. Is the current Government doing anything at all in the field of population planning?

Governor GILLIGAN. Presently, the GOI is evaluating and revising its population and family planning approach. The Committee, I am sure, is aware of the setback to India's population program caused by the "backlash" against the coercive measures employed in part of India during the emergency. However, the present Indian Government recently has shown renewed awareness of the implications of the population growth problem. It now appears to be more willing to emphasize family planning measures.

The health minister—previously ambivalent on the family planning program—has made a strong statement in favor of reversed efforts. The President of India also specifically mentioned the importance of reviving the family planning program in his opening speech to the budget session of Parliament, a statement prepared by the Cabinet. Such instances of high-level attention cannot be regarded as a magic cure by any means. Clearly, an effective program will require much effort, sustained follow-up by officials at all levels, and time. But we are encouraged by these signs that the Government is once again taking the problem seriously.

Moreover, two weeks of intensive family planning motivation and education efforts organized by the states, the annual Family Planning Fortnight, was continued this year. Both Prime Minister Morarji R. Desai and Jaya Prakash Narain, a highly respected colleague of Mahatma Gandhi, appeared on television and spoke on radio to endorse the program.

The emphasis being given by the present Government to improved integrated community-level health delivery in the long run may be the key to effective, broad-scale family planning advances. While the community health worker scheme, formerly launched last October, has and will have many problems and pitfalls before it is fully operational, we believe that it is a move in the right direction.

Mr. LONG. The United States has provided over \$9 billion in aid to India over the years, and the population continues to grow at enormous rates. They still must import large amounts of food and food products, and they still have great health problems. How can you expect a new U.S. A.I.D. program to help when it has not helped improve conditions in the past?

Governor GILLIGAN. Although economic growth has not been as rapid as we would like to see it and there are fundamental social and economic problems, India has made impressive progress in food production and in industrialization. It also has large numbers of well educated people and established education, research, and administrative institutions which are carrying out development programs. In fact, much has been accomplished, and U.S. aid contributed to these achievements. GOI estimates show that over the past 20 years average life expectancy has increased from 32 years to 51 years, the infant mortality rate has declined from 140 to 122 per thousand, and the population growth rate has declined from 2.4 to 2.0 percent. Moreover, the proportion of children enrolled in primary schools has increased from 20 to 65 percent, and the long-term growth trend in foodgrain production has more than doubled, somewhat exceeding population growth.

There are specific success stories which illustrate that progress has been made with assistance from the United States. The genesis of their rural electrification system and improvements in the agriculture university system, fertilizer production and distribution in the cooperative sector, and a wide variety of technical and research institutions are examples of progress to which USAID has made significant, successful inputs in the past.

Mr. LONG. Reading your justifications sounds like the arguments put forth 20 years ago for aid to India and that nothing has changed. Do you really feel we can ever solve India's problems until it is ready to fully commit itself to the task? Even then, is there any hope?

Governor GILLIGAN. There is hope for the future, but the problems are vast and will not be solved overnight. It is undoubtedly a matter of decades. We agree and the Indians fully acknowledge that the major commitment must be theirs. We believe the United States and other donors can and should encourage Indian efforts where we can be helpful to increase their chances for success.

QUESTIONS AND ANSWERS FOR THE RECORD

Mr. YOUNG. How much Communist aid has gone to India? From which countries and in what amounts?

Governor GILLIGAN. Communist countries' loans and grants to India are as follows:

Calendar Year 1954-77:

USSR	1,943.0
Eastern Europe.....	487.0
Total	2,430.0

Mr. YOUNG. How much multilateral aid has gone to India? From which institutions and in what amounts?

Governor GILLIGAN. Multilateral assistance that has gone to India is as follows:

	[Fiscal years]			
	1976	Transition quarter	1977	1946-77
Total.....	910.2	80	896.4	7,030.4
IBRD.....	210.2	80	269.0	1,992.2
IFC.....	6.6			51.5
IDA.....	684.1		622.0	4,732.0
UNDP.....	9.3		5.4	125.5
Other U.N.....				129.2

Mr. YOUNG. How much bilateral aid has gone to India? From which programs and in what amounts?

Governor GILLIGAN. Non-communist bilateral assistance that has gone to India is as follows:

OFFICIAL DEVELOPMENT ASSISTANCE—BILATERAL GROSS DISBURSEMENT

Donor	Calendar year 1975	Fiscal year 1976	Calendar years 1969-76
DAC COUNTRIES (EXCLUDING UNITED STATES)			
Total.....	828.9	773.0	4,505.2
United Kingdom.....	151.2	197.5	1,125.8
Germany.....	179.6	168.5	991.9
Japan.....	144.8	140.0	734.2
Canada.....	109.3	67.0	694.5
Sweden.....	85.3	58.6	237.5
Netherlands.....	58.7	62.2	233.1
France.....	39.8	43.1	213.3
Other.....	60.2	36.1	274.9
OPEC COUNTRIES			
Total.....	203.7	399.5	838.2
Iran.....	165.0	350.0	640.0
Iraq.....			110.0
UAE.....	38.7	31.6	70.3
Kuwait.....		17.9	17.9

Mr. YOUNG. What are the cumulative totals for all types of aid to India, direct and indirect?

Governor GILLIGAN. Unfortunately, our data is for somewhat differing time periods. The cumulative totals for all types of aid to India are as follows:

A. Total U.S. Assistance:

Fiscal year 1946-1977..... \$9,457.9

B. Total Official Development Assistance—Bilateral Gross Disbursements:

1. D.A.C. Countries (excluding the United States):

Current year 1969-1976..... \$4,505.2

2. O.P.E.C Countries:

Current year 1969-1976..... \$838.2

C. Total International Agencies Assistance—Commitments:

Fiscal year 1946-1977..... \$7,030.4

D. Total Communist Countries Loans and Grants:

Current year 1954-1977..... \$2,430.0

Mr. YOUNG. Earlier in the year it was reported that Indian health officials, conceding that there has been a considerable slowdown in their birth control campaign, have pushed back by several years their targets for reducing the country's birth rate. Yet, rather than moving forward with an A.I.D. Population program, A.I.D. is going to help expand India's agriculture production which is in such good shape that India can afford to send food to Vietnam, Laos, and the Soviet Union. Why?

Governor GILLIGAN. First, on population, the Indian Government did not request U.S. assistance in its population and family planning programs for FY 1978 or FY 1979 due to the events that evolved as a result of Mrs. Gandhi's coercive actions. But recently the Indian Government has begun to resume its population programs and even expressed possible interest in our involvement for FY 1980 or future years.

Second, regarding our assistance in agriculture production, despite the current and temporary grain storage problem—which is the primary motivation for India's recent export agreements—the long-term prospects are not very bright unless the

Indian farmer can dramatically increase his productivity. According to a recent study by the International Food Policy Research Institute, India will account for about 50% of the total LDC food production by 1990 but will still have to import 18 to 22 million tons of grain, unless rates of agricultural growth increase. If we could help the Indian farmer become even one-half as productive as our American farmers, not only would India be able to feed its own millions in the next decade but projected worldwide deficits would be wiped out. If the farmer could merely increase his production by 4% per year, rather than the current 2.5% growth rate, India could reduce the projected food deficit by one-half.

Mr. YOUNG. For how long does A.I.D. plan to have a program in India?

Governor GILLIGAN. India's development needs and our desire to provide assistance are clearly long-term programs.

Mr. YOUNG. What will be the estimated annual size of this program?

Governor GILLIGAN. I cannot be very specific at this time, but let me say now that I am earnestly hoping for a much larger program in India over the next five years compared to the fiscal year 1978 and fiscal year 1979 levels. The case is clear—in terms of potential growth in agriculture, administrative capacity, long-term commitment to the rural poor, and the inescapable fact that 50% of the poor in all the countries we assist are in India.

Mr. YOUNG. What is the size of India's external debt? How much is owed to commercial banks?

Governor GILLIGAN. India's external debt outstanding is about \$11.7 billion. The amount held by commercial banks is so small that there is little data available. It is estimated to total \$500 million at most.

Mr. YOUNG. How does the size of India's debt service compare to its export earnings?

Governor GILLIGAN. According to World Bank statistics, the Indian debt service ratio is 14.4%.

Mr. YOUNG. Is India currently experiencing a trade deficit? How large is the surplus?

Governor GILLIGAN. According to the preliminary estimates for FY 1977-78 the most recent World Bank report, the Indian balance of trade is in deficit by \$200 million.

Mr. YOUNG. Has there been any debt relief or debt rescheduling for India in recent years? In what years, in what amounts, and who participated in the rescheduling?

Governor GILLIGAN. India has had some debt rescheduling almost every year. In some instances, the debt relief is given in lieu of additional foreign assistance, e.g., by Austria.

Debt rescheduling for the last three years is shown below. The United States has not participated in these rescheduling activities.

	<i>Millions</i>
1. Austria	\$2.8
2. Belgium	4.0
3. Denmark	1.0
4. France	14.0
5. Germany	67.5
6. Japan	41.0
7. Netherlands	13.5
8. Sweden	1.1
9. United Kingdom	23.8
Total	<u>168.7</u>
1976-1977:	
1. Austria	2.7
2. Belgium	5.3
3. Denmark	1.3
4. France	12.5
5. Germany	68.7
6. Japan	41.9
7. Netherlands	9.8
8. Sweden	1.3
9. United Kingdom	21.0
Total	<u>164.5</u>

1977-1978:	Millions
1. Austria	1.5
2. Belgium	2.5
3. Denmark	1.3
4. France	6.1
5. Germany	13.1
6. Italy	17.9
7. Netherlands	11.4
8. Sweden	1.4
9. United Kingdom	7.0
Total	62.2

Mr. YOUNG. How large of a cash reserve of foreign exchange does India have? Is it \$5 billion?

Governor GILLIGAN. At the end of June 1978, India's net foreign exchange reserves were estimated to be \$5.891 billion.

Mr. YOUNG. How many Indian rupees does the United States own?

Governor GILLIGAN. As of December 31, 1977, U.S. holdings of rupees were Rs. 6.7 billion (\$810 million at Rs. 8.50 equals \$1.00). These rupees are being drawn down steadily through budgeted expenditures on established uses by U.S. Government agencies working in India.

Mr. YOUNG. India has received how many loans and in what amounts from the IMF for the last three years?

Governor GILLIGAN. India's outstanding drawings total SDR 201 million (\$248.9 million) from the 1975 Oil Facility. Since that date, there has been no borrowing from the Fund.

Mr. YOUNG. How much gold has India bought from the IMF? Has India purchased any of the gold sold by the U.S. Treasury in recent months?

Governor GILLIGAN. This data is not released by the IMF by amount per purchaser. However, each IMF developing country member is entitled to submit non-competitive bids for ounces equivalent to its share of total fund quotas, i.e., about 3%. In the June 7, 1978, IMF gold auction, awards were made to developing countries totaling 925,200 fine ounces, and India availed itself of this opportunity to purchase from the IMF. India did not participate in the July auction.

The United States prohibits sale of gold to monetary authorities and thus we have not sold gold to India.

Mr. YOUNG. Isn't it true that India's foodgrain production this year will be over 125 million tons; 14 million tons more than last year; and four million tons more than the record harvest of 1975-76.

Governor GILLIGAN. The food grain crop in India in 1975-76 was 121.0 million tons. In 1976-77, it was 111.6 million tons, and in 1977-78 it is expected to be 121 million tons, as estimated by USDA.

Mr. YOUNG. Isn't it also true that India's foodgrain reserves are expected to be this year about 20 million tons?

Governor GILLIGAN. That is correct.

Mr. YOUNG. There has been some speculation that the Indian Government may in the near future sell some of its foodgrains in the world markets. Do you know if India intends to do so?

Governor GILLIGAN. Speculation about possible Indian grain sales is understandable given India's current comfortable stock situation following three unusually good harvests. Recent reports in the Indian Press have mentioned a possible major loan of wheat to Pakistan, and a possible sale of 10,000 million tons of wheat to Nepal. Neither of these possibilities has been confirmed by the Government of India nor has it announced a policy of entering into the commercial sales market for foodgrains. The GOI policy is to consider each request for grain—loans, sales, or otherwise—on a case-by-case basis, with the decision made at highest government levels. Grain loans are advantageous because of India's inadequate storage capacity to safely hold additional stocks, and the expectation that short harvests are inevitable in future years. This year's monsoon rains, however, started early and have been fairly uniformly spread throughout the country, again bringing anticipation of an excellent harvest this fall. If realized, this will add further to Indian foodgrain stocks unless some disposal measures, internal and external, are taken. It should be noted that the GOI announced

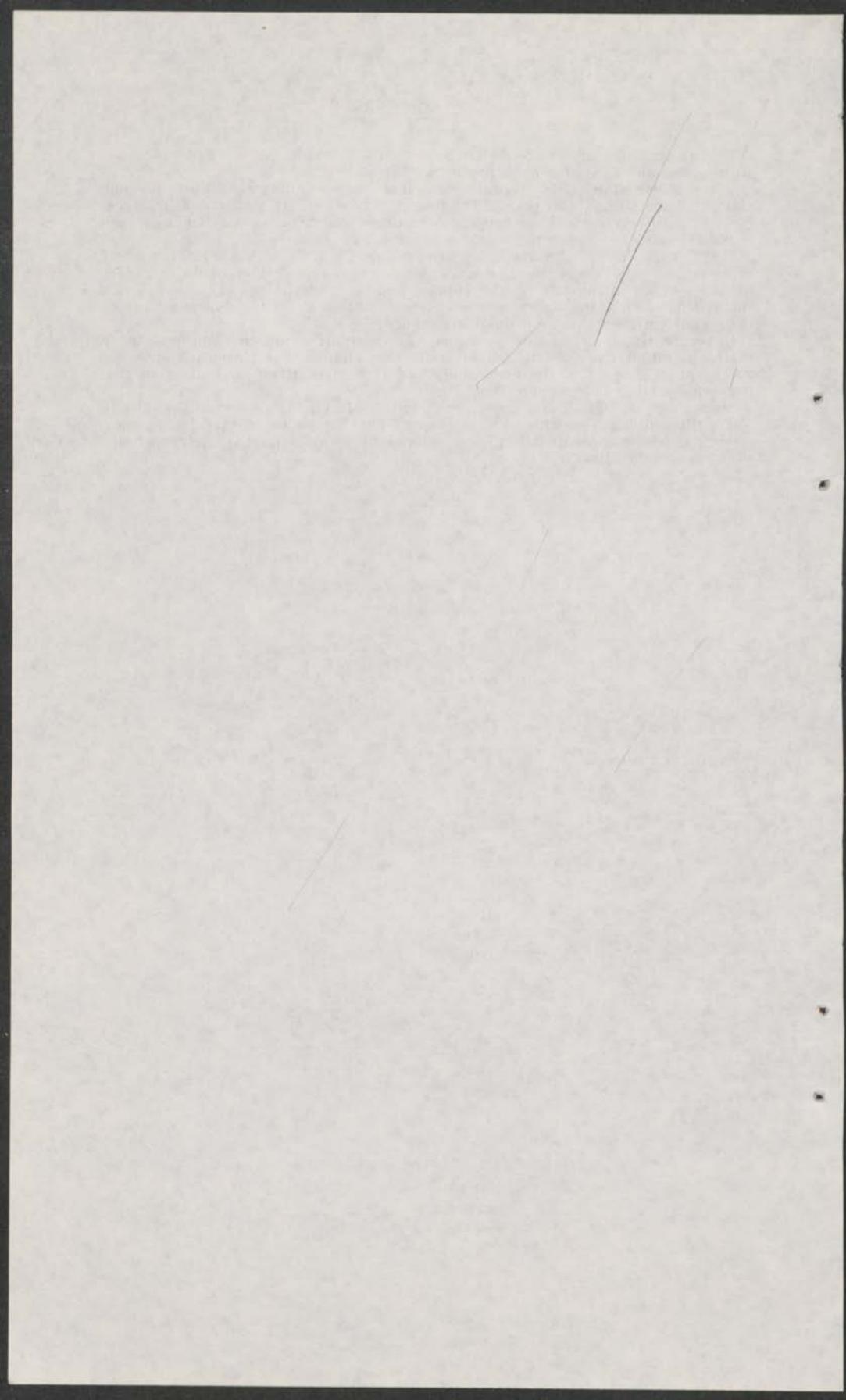
this year that one million tons of wheat would be made available at no cost to state government food-for-work projects.

While some additional external wheat loans are possible, significant commercial sales are unlikely because of the low quality of Indian wheat and its higher cost. Under current domestic procurement price policy, the cost of Indian wheat remains somewhat above the world market price.

Mr. YOUNG. Since India has agreed to provide Vietnam with \$50 million worth of assistance, there was another more recent press report which said that Vietnam is looking to India to fill the void caused by the withdrawal of Chinese aid for at least 21 major on-going projects. Do you know if India has agreed to provide Vietnam with this additional assistance?

Governor GILLIGAN. The press report was speculative and cited no hard information. Neither the Government of India nor Vietnam has made any comment on the press story, and the Government of India has given no indication that it is considering such a request.

Moreover, the Indo-Vietnamese agreement of March 1978 does not provide for \$50 million Indian assistance to Vietnam. This figure represents total export credits of which three quarters is on commercial terms and one quarter has only slight concessionality.



(Clerk's Note: The hearing on the Witteveen Facility was conducted by the full House Committee on Appropriations)

SUPPLEMENTARY FINANCING OF THE INTERNATIONAL MONETARY FUND (THE WITTEVEEN FACILITY)

THURSDAY, FEBRUARY 2, 1978.

WITNESSES

HON. W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY
MR. ANTHONY M. SOLOMON, UNDERSECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Mr. MAHON. The committee will come to order.

Secretary Blumenthal had a call from the President to meet with him at two o'clock. The Secretary will be here shortly, and I am going to ask Undersecretary Anthony Solomon to read the Secretary's statement. It is a brief statement and then we will have some questions to ask.

Will you proceed?

STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL, SECRETARY OF THE TREASURY, PRESENTED BY MR. ANTHONY M. SOLOMON, UNDERSECRETARY FOR MONETARY AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. SOLOMON. Yes, Mr. Chairman, thank you.

I appreciate the committee's decision to set aside time today for a discussion of important legislation now before the Congress to authorize United States' participation in the Supplementary Financing Facility, or "Witteveen Facility", of the International Monetary Fund.

This Facility is needed, and needed urgently, to deal with potentially serious dangers confronting the international monetary system. We face an uncertain world economy in which growth is inadequate and hesitant and confidence is weak.

We face a pattern of international payments with exceptionally large imbalances, both surpluses and deficits, and the prospect that certain countries will encounter severe payments difficulties.

The Witteveen Facility is a major response to these problems. It will reinforce the IMF's capability to maintain a sound international monetary system and promote a strong world economy thus helping to assure a prosperous U.S. economy and a stable dollar.

A stable and smoothly functioning international monetary system is central to our own efforts to promote domestic economic growth, reduce unemployment, and curb inflation.

The International Monetary Fund is our principal instrument for such a system. The IMF serves two broad functions:

Its Articles of Agreement constitute the framework, or the "rules of the game," for an open and cooperative system of international trade and payments.

Its resources are the world's principal source of official balance-of-payments financing, designed to help members solve their payments problems without resort to measures that would be destructive to their own economies and the world economy.

What the Witteveen Facility will do is provide, on a temporary basis, up to \$10 billion to increase the loanable funds of the IMF. These resources will enable the IMF to promote responsible economic stabilization programs in those member countries whose economies have become severely distorted and which face major external financing problems.

The Facility will be used only under clearly specified criteria. Specifically, a country drawing financing from the Facility must have a balance-of-payments financing need that is large relative to its IMF quota; must justify a period of stabilization and adjustment that is longer than that provided under regular IMF policies; and must adopt a program of corrective economic stabilization policies adequate to deal with its problem. Thus, the Facility will be used only by those countries that have the most severe payments problems and that are prepared to adopt needed corrective policies.

The Witteveen Facility will help ensure that the IMF has enough resources to meet the needs that may be placed on it during the next two to three years. It will encourage nations in difficulty to take the kind of stabilization measures that are in keeping with a liberal and open international trade and payments system.

It will thus reduce the dangers of protectionism and trade restrictions, of adjustments by countries that are too abrupt or too deflationary, of efforts by such countries to shift their deficits through competitive exchange rate depreciation to the United States which already has a large deficit. The Facility will provide confidence to the world community that our international trade and payments system is capable of coping with problems that may arise. Countries can be less hesitant in their growth policies, given the assurance of a stronger IMF with adequate financing. The Facility will reduce the risk of major new shocks to the monetary system.

This Facility has been sensibly and equitably structured. It is a unique cooperative venture, with the \$10 billion shared almost equally by OPEC and industrial countries. Saudi Arabia has the largest participation, roughly \$2½ billion. The U.S. share, about \$1.7 billion, represents less than 17 percent of the total, and is fully appropriate to our stake in a stable world economy.

United States participation in the Facility will result in no interest cost to the Treasury. The interest we receive from the IMF will be slightly above the cost of Treasury borrowing at comparable maturity. In addition, for each dollar we provide the IMF, we receive an equivalent increase in our international reserve assets, a fully liquid claim on the IMF which can mobilize if we state that we have a balance-of-payments need to do so.

And let me make clear that the U.S. has indeed drawn on its IMF assets in the past; we have drawn on 23 occasions, amounting to more than \$3½ billion. Thus the IMF is not an aid institution in which one fixed group of creditors is providing money to another group of recipients, it is a monetary institution in which all members have an

obligation to provide financing when their situation warrants, and a right to receive financing at time of need. Many members, including the United States, have at times been debtors, at times creditors.

It is clearly in the U.S. interest that we support this Facility. Our own prosperity depends closely and directly on a sound and prosperous world economy. Our exports account for on the order of one-sixth of our manufacturing jobs and one-third of our farm acreage. Our foreign trade is now at the level of \$270 billion per year and affects all phases of U.S. economic activity. Our money and capital markets are worldwide in scope. The dollar is the international currency and its stability depends importantly on developments in other countries.

We need to act promptly to bring this reinforcement of the international monetary system into operation. Delay can only add to the uncertainties. No other nation which is providing financing requires appropriations to participate, they treat it as a monetary or central bank transaction. The others are waiting for us to take the lead, and for our Congress to act.

I urge that the Congress respond favorably and without delay.

Thank you, sir.

Mr. MAHON. Mr. Secretary, you have worked very intimately with this proposal, I am sure.

Mr. SOLOMON. Yes, sir.

Mr. MAHON. We are pleased to have your comments, and we will undertake to grapple with this problem. I think you are going to find it difficult to make it clear to the House just what your objective is and to what extent is this foreign aid in the traditional sense. The question is asked, Why is this so urgent. You insist it is needed urgently in the very near future.

AUTHORIZATION

The authorization bill has not passed. I believe it was scheduled this week for consideration by the House, but in view of the fact that we have not completed action on the Continental Shelf bill now before us, I don't know when this will be up. Of course, the Appropriations Committee would have no authority in this matter until an authorization bill is passed.

NEED FOR APPROPRIATION

How would you explain in simple terms why you need this money?

Mr. SOLOMON. The IMF at the moment has left a very low level of usable resources by historical standards, because the drains on it have been very heavy during the period of the last few years. We wish to replenish the resources of the International Monetary Fund on this temporary emergency basis, without waiting for the next quota increase.

This is a temporary loan by certain stronger countries—half is put up by the OPEC countries and half by the stronger industrialized countries. It is at a cost which reimburses us for the cost of borrowing funds and, therefore, there is no cost to the taxpayer. We feel that this is a sensible way of replenishing the resources of the fund.

FUNDS PROVIDED BY OPEC COUNTRIES

Mr. MAHON. How much money are the OPEC countries going to put into this fund?

Mr. SOLOMON. They are going to put up 48 percent, virtually \$5 billion; it's roughly equal to the industrialized countries as a group.

Mr. MAHON. Why is it to the interest of the Arab countries to put up this money?

Mr. SOLOMON. It took six months of persuasion and discussion to persuade them that they shared an interest in strengthening the international monetary system, and they came around to that conclusion and finally agreed.

Mr. MAHON. Are you getting any special opposition from any other country that should participate in the program?

Mr. SOLOMON. No, sir, all of the countries that were approached agreed.

FUTURE REPLENISHMENTS OF THE FUND

Mr. MAHON. Is this really going to be just a one time item, or will there later be a request to either extend or to increase the program's funding? Rarely is there such a thing as temporary legislation or temporary participation by this Government in a program, so is this just an opening door to an expanded expenditure to the International Monetary Fund?

Mr. SOLOMON. Future replenishments of the Fund will be done through regular quota increases, Mr. Chairman. There is no intention whatsoever to establish a new permanent facility, because the size of future quota increases over the years should cover the replenishment needs.

REPAYMENT

Mr. MAHON. Are you confident that we will actually receive back the money that we put into this program and that it will not be a net loss to the United States Treasury?

Mr. SOLOMON. Without any question, sir, because we are not lending to countries. We are simply permitting the Fund to draw, and the Fund is responsible to repay us. In fact, as they draw from us, the international reserve position of the United States Government increases equally. For every dollar the Fund draws from us, our international reserve position increases. The Fund will be able and willing, without any question, to repay the United States.

EXPORTS

Mr. MAHON. Changing the subject, in your statement you say our foreign trade is now at the level of \$270 billion. Do you mean that our exports are at that level?

Mr. SOLOMON. No, sir.

Mr. MAHON. Our exports are about \$109 billion, are they not?

Mr. SOLOMON. Running around \$120 billion, sir.

TIMING OF ACTION ON FUNDING REQUEST

Mr. MAHON. About \$120 billion. I would like to say to the committee, we have been requested to take immediate or early action on

this request, and we have been requested to handle it through the Full Committee if we can reasonably do so.

Whether we can do that or not is doubtful, but it was thought that to expose as many of the committee Members as possible to the proposal might be helpful, and that is the reason we are having this hearing here this afternoon before the full 55 Member Appropriations Committee.

We are not certain just if or how we should distribute this responsibility to the subcommittees of the Appropriations Committee. The Treasury-Postal Service Subcommittee and the Foreign Operations Subcommittee are candidates to consider the matter. We are contemplating just how we will actually handle the legislation before the committee and before the Congress.

I see Secretary Blumenthal entering the hearing room. Mr. Secretary, your statement has been read by Dr. Solomon, and we are pleased to have it. We realize you had an appointment with the President.

Secretary BLUMENTHAL. I apologize, Mr. Chairman.

Mr. MAHON. It's perfectly all right.

You are free now to put your best foot forward and convince the Members of the Appropriations Committee that when this authorization is passed, which I assume it will be, that we should take early action.

Secretary BLUMENTHAL. Mr. Chairman, I am sure Mr. Solomon has generally presented the case.

Let me say that it is important that we move as quickly as possible because this facility cannot be activated until the United States has acted, and we are, as you know, in an uncertain world environment.

There are a number of economies that are weak. There are problems of confidence in the international monetary system. The availability of this additional facility to the IMF would be a considerable factor of confidence which would benefit us very importantly, benefit our trade, benefit the position of the dollar, and the general stability of the total world economic situation.

The IMF is a key institution for ensuring that kind of stability. It has been around quite a while. It has done a very excellent job. It provides the framework for order in the international financial arena, and it uses its resources effectively. They are not aid. They are resources available to all members.

I do not know whether Mr. Solomon has made the point, which I think is worth making again if he has already done so, that we ourselves have in the past on 23 separate occasions used the resources of the IMF for drawings totaling something like \$31½ billion. So that is really a very important institution which is available to all its members and does a very good job.

This additional facility is important, also, and that is the last point I wanted to make, in that it represents a first with regard to collaboration between the stronger advanced industrialized countries on the one hand, and the OPEC oil exporting countries on the other. This is the first time that a facility of this kind is being contemplated and successfully negotiated that involve a virtual 50-50 sharing in the resources being put together.

Indeed, the single largest contributor to that facility will be Saudi Arabia, who will be contributing \$21½ billion, compared to our \$1.7 billion.

COUNTRIES EXPECTED TO DRAW ON FACILITY

Mr. MAHON. If this legislation were in place now, what countries of the world would probably be participating in the use of these funds?

Secretary BLUMENTHAL. We cannot really say which countries would want to make application and would be eligible to draw on that facility. That would depend on the circumstances at the time. Any country, theoretically, is eligible to draw on it. It depends whether or not the country requires a longer period of time than the normal resources of the Fund permit for its stabilization efforts. It depends on whether or not the total balance of payments financing required for that country is larger than the existing quota resources available to the country. And it also depends on the willingness of that country to take the necessary corrective measures as one of the conditions, because that is not an unconditional resource that countries can get.

Mr. MAHON. Will Italy and Portugal be top candidates for the utilization of these funds?

Secretary BLUMENTHAL. I really would not want to single out individual countries. I would say they clearly could be candidates and under certain circumstances might be.

Mr. MAHON. I am going to yield to Mr. Cederberg.

Mr. CEDERBERG. Do I understand correctly that this is the result of substantial negotiation between many of these countries, particularly the OPEC countries?

Secretary BLUMENTHAL. There has been very substantial negotiation, Mr. Cederberg, yes, sir.

Mr. CEDERBERG. I assume that during those negotiations that our Government has indicated to make this a success, we have to be a participant to this facility. Do you know of any other countries that have any question about whether or not they are going to participate?

Secretary BLUMENTHAL. As far as I know, unless Mr. Solomon has some additional information on this, all of the countries that participated in the negotiation and indicated the amounts that they would contribute are sticking by their commitments.

NEED FOR U.S. PARTICIPATION

Mr. CEDERBERG. So the problem would be that if perchance we did not stick by our commitment that it might have a serious impact on the entire negotiations?

Secretary BLUMENTHAL. Oh, it would have more than a serious impact, Mr. Cederberg. The facility would not come into being. It cannot come into being without our participating in it.

Mr. CEDERBERG. That is all, Mr. Chairman.

[Mr. Cederberg submitted the following questions for the record. The answers were provided by the Department of the Treasury.]

Question. Mr. Secretary, in your letter to me dated January 30, you described this Facility as "a temporary arrangement" to meet world balance of payments needs. These balance of payments needs are due largely to increased oil prices, prices which are not likely to go down in the future. It seems to me that oil

prices are going to be a serious problem for all countries, the United States included, for many years. What do you see down the road after this proposed "temporary arrangement" is exhausted?

Answer. The large imbalance in world payments, resulting largely but not wholly from the OPEC surplus, is expected to decline in the years ahead as energy policies take effect in the U.S. and elsewhere, and as the OPEC surplus countries increase their ability to absorb imports from abroad. The bulk of this imbalance has been financed, and will continue to be financed, through private capital markets, but some official financing will be required. The Witteveen Facility will provide additional resources to the IMF to assure that it has enough resources to meet official balance of payments financing needs—in particular, to help deal with the problems of those countries facing the most difficult payments and adjustment problems. Such countries are likely to have needs for official financing which are large relative to their normal access to IMF financing, and to need a longer period for adjusting their economy and balance of payments than is normally provided under standard IMF procedures. After the period of the Witteveen Facility, we expect that the OPEC surplus will decline, and that adjustments in the regular IMF quota structure will enable it to meet future requirements.

Question. Following up on that, the International Monetary Fund was set up at a time when the world economic picture was much different than we know today, and I realize that this Witteveen Facility is an attempt to reflect the new economic realities—that is, to get some OPEC money involved in helping countries which have been hurt by OPEC's oil prices. Isn't it time for basic overhaul of the structure of the International Monetary Fund to reflect current global economic realities? That certainly would be better than a continuing series of temporary arrangements.

Answer. In 1976, agreement was reached on a comprehensive revision of the IMF Articles of Agreement to introduce important reform measures—such as reduced reliance on gold and increased emphasis on exchange rate flexibility. At the same time, the IMF quota structure was changed sharply to reflect more adequately present economic realities—specifically the *share* of IMF quotas of the OPEC countries was doubled. That quota change is now being ratified, and is expected to take effect shortly. The Witteveen Facility is needed to supplement those IMF quotas for a temporary period. It is contemplated that as conditions in the world economy change, there will be additional changes in the IMF quota structure.

Question. Could you identify for us some of the countries which will benefit from this Facility, based on their current economic status?

The United States is running a balance of payments deficit of around \$18 billion, according to testimony before this Committee earlier today. Would we be eligible for assistance under the Witteveen Facility? Or perhaps I should ask if we will be likely to get any such assistance?

Answer. The United States—and all countries in the international economy—will benefit from the Witteveen Facility through an improved and strengthened international monetary system. With regard to which countries might actually utilize financing under the Facility, I would prefer not to try to predict in public specific countries which might draw from the Facility. Making such predictions can generate speculative flows and add to the problems countries in payments difficulty already face. Moreover, balance of payments positions can shift rapidly, and such predictions would not be very reliable or useful. With respect to the question of the U.S., it is not contemplated that the U.S. would draw from the Facility. It is, of course, not just the countries which have large *current account* balance of payments deficits which might draw from the Facility, but rather countries which have a large *overall* payments problem and need for adjustment, and which face serious difficulties or inability to finance their deficits. The U.S. or any member of the IMF which qualifies on the basis of balance of payments need and willingness to adopt the appropriate stabilization measures in conjunction with an IMF program would be eligible to draw from the Facility. In the event of a balance of payments need, however, the U.S. could request immediate encashment of its claims on the IMF arising from its participation in the Facility before contemplating borrowing from the Facility.

Question. What is the status of any U.S. commitment to contribute to this Facility? In other words, have the other potential contributor nations been led to believe that our contribution is largely assured?

What would happen if Congress refuses to approve U.S. participation in this Facility?

What would happen if Congress approves our participation, but reduces the amount of our participation below the figures you are talking about?

Answer. In the negotiations, we always made clear to the other participants in the Witteveen Facility that legislation would be required for U.S. participation, and we agreed that we would seek such legislative authority. If the Congress refused to approve U.S. participation, there could be very serious consequences. For one thing, U.S. leadership and credibility in the international monetary sphere would be severely undermined. At the same time, there would be no assurance that the IMF would have adequate resources to meet potential needs for those resources. This could lead to a lack of international confidence in the soundness of the international monetary system, to more hesitant growth policies on the part of some countries, and to the possibility of moves by some countries to seek to deal with their balance-of-payments problems through trade restrictions, exchange controls, excessive deflation, etc., with adverse consequences on trade, jobs and income, in the United States and the world economy generally. If the Congress reduced U.S. participation below the level agreed to in the negotiations, the other participants would feel free to reduce their participation or withdraw. Some other countries agreed to participate only with great reluctance and on the basis of the proposed participation by the U.S. It is very likely that the entire Facility would collapse. It has been agreed that all major participants must provide their fully agreed amounts before the Facility comes into being.

Question. Would you explain for the record why the regular operations of the International Monetary Fund are not adequate to meet the current balance of payments problems in these countries?

In dealing with that, tell us why the new Facility will impose softer conditions on its loans than are imposed on IMF loans. (Especially why the period over which the conditions on the loans to be imposed will be extended to three years, compared to as short as one year under IMF loans.)

Answer. There are two reasons. First, usable currencies of the IMF are low (about SDR 5-6 billion equivalent) relative to potential needs for those resources. The regular means of increasing IMF resources—through a general increase in IMF quotas—is a lengthy and time-consuming process. A quota increase could not be negotiated and implemented in time to provide additional resources to the IMF to meet financing needs for the next 2 years or so, which is the focus of the Facility. Second, the Witteveen Facility is designed for a particular problem—it is to be used selectively for certain countries facing larger financing needs and requiring a longer period of adjustment and repayment than is provided under normal IMF policies and operations.

The conditions of the Witteveen Facility are different, but are not "softer" than regular IMF conditions. The interest rate is tied to the U.S. Treasury borrowing rate, and is substantially higher than the interest rate on normal IMF transactions. The maturity of the financing is somewhat longer—with financing repayable over 3½ to 7 years as compared to 3 to 5 years under regular IMF financing—reflecting the particularly serious adjustment problems to which the Facility is directed. Financing will be available over periods of 2 to 3 years (as compared with the usual one- or occasionally two-year term on regular IMF transactions), also reflecting the major adjustment problems faced by borrowers. (This also means that the borrowing member will have to remain in compliance with an IMF program for a longer period of time.) The policy conditions associated with financing by the Facility are the same as the conditionality of IMF lending in the "upper" (more conditional) credit tranches.

Question. What specific safeguards will you, as Secretary of the Treasury, take to prevent abuses of assistance provided by this new Facility by A) the loan-recipient nations, and B) private banks?

Based on information available to you, do you believe any U.S. private banks are now overextended in the developing world? Are any getting close?

These questions of abuse and potential overextension bother some people up here, people who would ordinarily tend to support this request. Would you provide for the record a more extensive response to these questions?

Answer. The Facility has been carefully designed to assure that borrowing countries undertake economic stabilization programs adequate to correct their problems and restore sustainable balance of payments positions. We do not see a potential for "abuse", but will take particular care to see that the terms and conditions that have been established for the Facility are adhered to in its operations.

With respect to your second question, detailed data on the assets of individual banks are frequently not available publicly, although the annual reports of many

banks indicate the magnitude of that bank's exposure in LDCs and in other geographical areas. Based on the annual reports for the major banks and information from the regulatory agencies, I do not believe that any U.S. banks are overextended in LDCs, nor is the proportion of these claims to their total assets likely to rise to a dangerous level in the foreseeable future.

In response to your request for a more extensive response to questions about the banks in this area, the following outlines our thinking about future imbalances, the role of the banks in financing the imbalances, and the role of the IMF.

A main premise of the proposed Supplementary Financing Facility is that the OPEC surplus is structural in nature and will diminish only gradually over time. Alternative sources of energy simply are not adequate at present, and oil importing nations cannot cut back sharply on use of oil without serious adverse effects on their economies. Moreover, the capacity of the major OPEC nations to absorb imports is limited, and it is unrealistic to expect those few countries in which the surplus is concentrated to increase purchases of foreign goods and services rapidly enough to eliminate the surplus quickly. As the capacity of these OPEC nations to absorb imports increases, and as the oil importing countries, particularly the United States, implement effective energy programs, the large imbalances that now exist will be eliminated or reduced to more manageable levels.

Over the next several years, however, large payments imbalances will continue to exist. Thus the non-OPEC countries as a group will continue to have substantial financing requirements. In the aggregate, funds will be available to meet this financing need: the OPEC financial surplus, which is the counterpart of the oil importers' deficit, must be invested in the oil importing countries. Some of it will be invested in government securities, some in corporate bonds and stocks, some in real estate, etc. The remainder will be left on deposit with banks. The amount which OPEC invests in any particular country, however, need not match the size of that country's current account deficit, and some investments will be placed with oil importing countries which have current account surpluses. Thus the distribution of OPEC placements does not correspond to the pattern of current account deficits, and certain individual oil importing countries must use a variety of channels to obtain the financing they need.

Not all countries collect data on such financial transactions, and the data that are collected by various countries are not always computed on the same basis. In an effort to provide a very rough approximation of major types of capital flows, the Treasury has prepared estimates of the sources and uses of funds by countries in current account deficit in the 1974-76 period. During this period total financing by countries with current account deficits amounted to about \$277 billion, comprised of \$225 billion in net new financing of current account deficits, \$40 billion to debt amortization and \$12 billion for reserve increases. Of this total, private banks provided \$128 billion (46 percent) and other private sources—including direct portfolio investments, bond sales, government placements and a variety of other financing channels—provided \$96 billion (34 percent). All official sources of financing, bilateral and multilateral, provided the remainder, some 20 percent of the total. A detailed presentation of these statistics is attached.

Our expectation is that the OPEC surplus, though decreasing gradually, will remain large over the next few years and that—despite some important shifts and reductions in imbalances among oil importing nations—total financing needs will continue to be on the same order of magnitude over the next two to three years as during the 1974-76 period. At the same time, while we would expect some expansion of official sources of financing in the period ahead—for example in IMF financing—official financing is unlikely to expand enough to account for a sharply increased share of total financing. Consequently, it seems inevitable—barring some dramatic and unexpected change in the world energy balance in the short-term—that the scale of balance of payments financing will remain very large in the period immediately ahead, and that the private sector will continue to provide the bulk of such financing.

In dealing with the problems posed by present and prospective payments patterns, a careful balance must be struck between financing and adjustment. In the early aftermath of the 1973/74 oil price increases, emphasis was placed on assuring the adequacy of resources for financing the balance of payments costs of higher oil prices in a world also facing deep recession. Nations were encouraged, at least temporarily, to "accept" the oil deficit and finance it, rather than to try individually to eliminate their deficits through restrictions and domestic retrenchment. It was recognized that such policies by any one country would

increase the problems of other oil importing nations and exacerbate worldwide economic difficulties. Much of the financing made available—by both private and official sources—was essentially without conditions or requirements that particular adjustment policies be implemented.

This was a reasonable and prudent initial response to the payments problems caused by the oil price increases. But it is clearly recognized by the international community that a process of adjustment must be undertaken, that the pattern of current account deficits must be brought more closely into line with sustainable patterns of capital flows. In some countries, policies have been altered effectively to bring deficits into a position that is reasonable and sustainable in light of the country's ability to attract capital. In others, where programs have only recently been put in place or progress on earlier programs has been slow, perseverance and time are required to achieve the economic stability essential for sustainable growth. And some countries, which have reached or are approaching the limits of their ability to borrow in private markets, must initiate adjustment efforts that have been too long delayed. There is a danger that in some cases of particularly serious difficulty, adequate private financing will not be available and countries could be compelled to implement unduly restrictive domestic economic measures, protectionist trade and capital restrictions, or aggressive exchange rate practices in order to reduce their financing needs. Such measures could have serious implications for the world economy in general as well as adverse consequences for the economy of the country introducing them. To defend against this danger, and to promote orderly and internationally responsible adjustment, adequate official balance of payments financing must be available to supplement other sources of financing during the transition while adjustment takes effect.

The Supplementary Financing Facility will meet this need by helping to assure that IMF resources are adequate to meet official balance of payments financing requirements and by encouraging countries to take essential adjustment measures—thus strengthening confidence in the monetary system as a whole. The facility will not sharply reduce aggregate financing requirements—that is largely a function of the world energy balance—but will help to bring about a more sustainable pattern of imbalances and reduce imbalances among oil importing countries.

I do not share the view that continued large-scale financing, by itself, constitutes a serious danger for the monetary system. The key questions are who is borrowing and how is the credit being used. Foreign debt is not necessarily bad—it can be an important positive factor in an economy. If borrowed funds are properly used to support productive investment and to strengthen the borrower's current account position, the debt need not constitute a serious future burden, as shown by the experience of the United States in the last century and other countries at present. Excess savings in surplus OPEC countries can, in effect, finance investment in the oil importing countries by supplementing those countries' domestic savings. The OPEC savings can be transferred to oil-importing countries directly or indirectly (through capital markets) and used to finance productive investment in those countries. Provided that the borrowed funds are productively invested, there need not be servicing problems in the future. IMF programs are designed to promote the sound and stable economic conditions which are conducive to productive investment.

Continued foreign lending by private banks need not have an adverse impact on the U.S. economy, either because of a diversion of credit to overseas borrowers or because borrowers will rely on exports to repay their debt. Commercial banks have been able and will continue to be able to expand overseas lending from the net capital inflows of the OPEC countries. There is no evidence that bank liquidity is strained, and as domestic credit demands revive with economic growth, we do not anticipate that U.S. banks will have difficulty in meeting these demands. Certainly countries will service their debt, in part, through export earnings, and some of those exports will be to the U.S. At the same time, however, those countries will be increasing their capacity and demand for imports, and some of those imports will be from the U.S. As one country grows, so will many of its trading partners, with the result that all countries can share in increased economic prosperity.

There is no reason to expect that an increase in debt, per se, will impede development in LDC's. On the contrary, if productively invested, borrowed money increases a nation's capacity to service debt by encouraging economic growth and expanded trade. As discussed above, if the borrowed funds are properly used to support productive investment and to strengthen the borrower's current

account position, the debt will not necessarily constitute a serious future burden. Foreign debt can thus be an important positive factor in an economy, by providing a major source of economic growth. Not only is this true for developing nations, but also for industrial countries. By enabling countries to finance their payments imbalances in an orderly way and increase productive capacity, foreign lending leads to a healthier world economy.

In sum, I believe that financing needs will remain at high levels in the period immediately ahead. This outlook is largely determined by the world energy situation, which cannot be corrected by financial measures. I see no realistic alternative to continued reliance on the private sector for the bulk of financing—and no serious danger for the system provided that financing is used in a prudent and productive way. The IMF has an important role to play, both in supplementing private sources of financing and in encouraging an adjustment of payments imbalances to a more stable and sustainable pattern. Finally, I believe that the private markets have played an invaluable role in the aftermath of the oil price increases, in providing financing needed by countries to sustain growth and avoid mutually destructive policy responses to the abrupt deterioration in their current account positions. With care on the part of both public officials and the private sector, that constructive role can be continued, while we work to achieve a fundamental adjustment of the energy imbalance which is the chief underlying source of current world payments problems.

ESTIMATED SOURCES/USES OF FUNDS BY COUNTRIES IN CURRENT ACCOUNT DEFICIT

[In billions of dollars]

	1974	1975	1976	Total, 1974-76
Sources:				
Official flows, total.....	15	18	20	53
Multilateral.....	8	11	14	33
IMF (net).....	3	4	6	13
Others (net) ¹	5	7	8	20
Bilateral development assistance (credits, net of grants) ²	7	7	6	20
Private flows, total.....	71	73	112	256
Commercial banks (change in claims on all areas, including surplus countries).....	50	40	70	160
Europe (G-10).....	35	50	56	141
Canada and Japan.....	5	—	5	10
United States (domestic).....	19	14	21	54
United States (offshore).....	13	15	23	51
Total.....	72	79	105	256
Minus double counting of interbank deposits.....	22	38	35	95
Net lending by banks.....	50	40	70	³ 160
Memo: included in above are medium-term Euro-credits.....	(28)	(23)	(34)	(85)
Other private sources:				
International bonds placed by deficit countries.....	6	14	22	42
Direct placement (including government to government).....	3	8	12	23
Portfolio/direct investment.....	12	11	8	31
Total (other private sources).....	21	33	42	96
Total sources.....	86	91	132	³ 309
Uses:				
Aggregate current account deficits (including official transfers).....	76	76	72	224
Debt amortization.....	10	12	18	40
Reserve change by countries in deficit (+ indicates reserve increase).....	-4	-3	+11	+12
Credits to surplus countries (bonds and banks) ⁴	5	10	17	32
Total uses.....	95	95	118	308
Error and residual.....	-9	-4	+14	+1

¹ BRD, IDA, IDB, regional development banks, EEC, U.N. and special OPEC funds.

² Grants by OECD and OPEC were \$11,000,000,000 in 1974, \$11,000,000,000 in 1975, and \$12,000,000,000 in 1976.

³ Treasury staff estimates that included in this total is roughly \$32,000,000,000 of banking flows to surplus countries, leaving a total of \$128,000,000,000 of commercial bank lending to deficit countries and a total of \$277,000,000,000 in total financing flows to deficit countries.

⁴ Treasury staff estimate.

Question. It is the position of the Administration that no appropriation is required for the estimated \$1.75 billion U.S. contribution to the Witteveen Facility, since we will get back 1.45 billion special drawing rights (SDR's). First, what are special drawing rights, and what can we do with them? Second, give us some instances when the United States used SDR's in the past. Third, since there is only a given amount of money in the U.S. general Treasury, does the commitment of this \$1.75 billion prevent the commitment of that amount of money for domestic needs? I ask these questions because it is hard for a lot of Americans, and their Congressmen, I might add, to understand how you can commit a large amount of dollars to an international institution, get something back that you can't spend for domestic needs, and tell us that the whole operation is just "an exchange of assets."

Answer. When the U.S. provides dollars to the IMF under the Witteveen Facility, it will receive in return an equivalent increase in the U.S. "reserve position" in the IMF—a liquid claim on the IMF which is denominated in SDR, the IMF's unit of account. These claims give the U.S. the right to draw from the IMF, when we have a balance of payments need, the foreign currencies we require or Special Drawing Rights (with which we can acquire the foreign currencies needed). These claims accordingly are counted as part of the U.S. official monetary reserves.

The United States has used such reserve claims on the IMF on 23 occasions in the past, for a total of more than \$3.5 billion, obtaining the foreign currencies required for balance of payments purposes.

Thus, the U.S. is not "spending" when it provides dollars to the IMF. Rather it is using one form of money (Treasury's cash), to acquire another form of money (international reserves) which we need for international purposes. These transactions are akin to purchasing foreign currency with U.S. dollars or to depositing dollars in a bank. In none of these cases have Treasury monetary holdings declined—rather the *form in which our money is held has changed*. Accordingly, these transactions should not be viewed as competing for U.S. resources with government spending programs, whether the spending under those programs is for domestic or international purposes.

Question. If we choose to go the appropriation route on this request, is the total amount we would have to appropriate—\$1.75 billion *plus* the \$200 million for the reserve for exchange losses, for a total of \$1.95 billion?

Answer. The Committee on Banking, Currency and Housing reported the bill authorizing U.S. participation in the Witteveen Facility with a provision subjecting the authorization to the appropriations process.

In the Administration's view, if appropriations are required, only an appropriation of \$200 million, as a contingency reserve for potential exchange valuation losses arising from U.S. participation in the Witteveen Facility, would be necessary. As indicated in the answer to question 7, U.S. transactions with the IMF under the Witteveen Facility are monetary exchanges, and the only expenditures that might be incurred in connection with U.S. participation are valuation losses on U.S. holdings of monetary assets because of exchange rate changes.

Question. In closing my part of the questioning, I would just repeat a question posed in the dissenting views on the authorizing bill for this request:

Why is it in the national interest of the United States, which is itself a victim of OPEC oil policies and which has serious balance of payments problems of its own, to provide \$1.75 billion to the proposed Witteveen Facility, which is designed to assist other countries in financing their oil-related balance of payments deficits?

Answer. The Facility will, of course, be providing financing to countries in balance of payments difficulty. That financing is to promote a more sustainable pattern of payments imbalances, and to promote balance of payments adjustment through internationally cooperative and responsible policies. Thus the purpose of IMF financing is to maintain a strong international monetary system and a healthy world economy. U.S. economic growth and prosperity, and the health of the dollar, depend critically on a strong and prosperous world economy. It is clearly in the U.S. interest to join with the other industrial countries and the OPEC countries to help reinforce the IMF and the world economic system, because of our own important economic stake in that system.

Mr. MAHON. I would like to yield to the gentleman from Oklahoma, Mr. Steed, and then to Mr. Long, who have subcommittee assignments that are related to the problem.

If there is no objection, Mr. Steed?

Mr. STEED. Mr. Secretary, of course since the authorizing legislation is coming up on the House floor, obviously, if it's approved the major questions as to the desirability of this program will have been answered. If it isn't, of course, then we don't have any problem as far as our committee is concerned.

Now, assuming that it is approved, the Appropriations Committee then will have to start the process of enacting a law appropriating the amount of money we are committed to do. But there is the other side I am interested in.

This imposes certain functions upon the Treasury Department, and when you have extra work to do you have extra administrative costs.

Could you give me a little summary of how much of your manpower and your resources are involved in administering this program and what would probably be added to it if this new function is brought about? Also, how does that interface with the stabilization fund activities that you also have to carry out of the Secretary's office?

MANPOWER TO ADMINISTER PROGRAM

Secretary BLUMENTHAL. I would say, generally speaking, Mr. Steed, that I do not believe that the participation by the United States in this so-called Witteveen Facility would impose additional manpower burdens on us. That can be handled with the normal complement of executives that we have in the international side of the Treasury, particularly on the international financial side in OASIA (Office of the Assistant Secretary for International Affairs).

These are the same people that are also engaged in administering the Exchange Stabilization Fund. I don't really think we would have to expand our manpower complement.

Mr. Solomon is immediately in charge of that. Do you agree with that?

Mr. SOLOMON. Yes, sir.

Mr. STEED. We never have considered the stabilization fund as one of the subjects that would come under the general heading of foreign aid. How do you consider the IMF? Do you consider that a type of thing like foreign aid or is this more in the neighborhood of the stabilization fund?

Secretary BLUMENTHAL. The IMF is quite different from foreign aid, Mr. Steed. This is a participation in an activity in which you assume rights and obligations, in which you exchange resources for other instruments of value, in which you have an equal right to draw on the facilities, where you have an obligation to repay over a short period of time. As I have said, we have drawn on the IMF on a number of occasions, and really this is a way to maintain stability in the world monetary situation and to maintain general economic health and the level of trade in the world.

It is not a hand-out; it is not a providing of aid to any particular countries. The member countries have paid resources into the Inter-

national Monetary Fund, as we have, and they have a right to draw on that. So, it's really quite a different situation.

Mr. SOLOMON. May I add to that, Mr. Steed?

We have a continuing day-to-day relationship with the International Monetary Fund, and our net creditor position in the Fund changes continually as countries draw or pay back dollars or as we purchase or repurchase foreign currencies. We consider this Witteveen Facility as part of the regular international monetary transactions of the Treasury with the Fund.

Mr. STEED. As I follow you, then, you consider this entire IMF area as another purely Treasury function as you do the several other responsibilities the Treasury Department has to perform.

Secretary BLUMENTHAL. That is right.

Mr. STEED. It has nothing to do with some program of foreign aid or some other activity of that sort?

Secretary BLUMENTHAL. That is correct.

Mr. STEED. There is one thing that I am a little bit unclear on. We have need for this, as I gather, mainly because of the oil situation and the burdens it imposed on all of these countries when the price went up so high so fast. Would it be your understanding of the operation of the fund, if a country received a loan from the fund, that the IMF would require that it take some action to correct its internal affairs to the point that it could cope with this oil problem so it wouldn't be an ongoing burden because of its balance of payments being so out of balance.

Secretary BLUMENTHAL. Those are difficult problems for some countries. But the agreements that are negotiated between the IMF and individual countries with whom they are working on stabilization programs generally are of a nature that the country can accommodate.

The IMF is not going to press for something that is unbearable for the country. It does frequently mean, however, adjustments are difficult and involve some belt tightening. Under present circumstances, virtually all of the countries that are going through stabilization programs are able to handle their obligations under the IMF agreements.

Mr. STEED. That is all, Mr. Chairman.

Thank you, Mr. Secretary.

Mr. MAHON. The gentleman from Maryland, Mr. Long.

PURPOSE OF PROVIDING RESOURCES

Mr. LONG. Thank you, Mr. Chairman.

You say this is not a foreign aid program. Aren't the difficulties of many countries due to the fact that the OPEC nations have maintained a very high price for their oil? A high price which has put a great many countries in exchange difficulties, including ourselves?

OIL PRICE INCREASES

Secretary BLUMENTHAL. It is true that the increase in the price of oil has created difficulties for several countries.

Mr. LONG. In setting up this program, aren't we, in fact, helping these other countries to continue to pay these exorbitant prices for OPEC oil?

Secretary BLUMENTHAL. The IMF is providing these resources as part of agreements for carrying out stabilization efforts in each of the countries involved, so that their total economy adjusts itself to the new situation.

ASSISTANCE TO DRAWING COUNTRIES IN MAKING OIL PURCHASES

Mr. LONG. This may or may not be true, but isn't it a fact that by setting up this program we are helping these foreign countries continue to buy oil at high prices from the OPEC nations?

Secretary BLUMENTHAL. Some countries buy from the OPEC nations, others have their own resources. The IMF's resources are available to assist in economic stabilization efforts for any purpose.

INTEREST OF OPEC COUNTRIES

Mr. LONG. I don't think you are really responding to my question. Doesn't the fact that the OPEC nations are putting up 50 percent of this money indicate the recognition on their part that they are a major part of the cause of the problem?

Secretary BLUMENTHAL. I think it indicates a recognition that they have a lot of excess resources, that they have the same interests that we do in maintaining stability in the world economy.

Mr. LONG. But don't they have to sell their oil, and isn't there an awful lot of difficulty in selling oil at those high prices? Aren't there oil surpluses in the world because some countries are having difficulty buying the oil they need at the high prices that have been set up by OPEC? Isn't this facility, in fact, a recognition of that fact and an attempt to enable a lot of countries to continue to buy oil at those high prices?

Secretary BLUMENTHAL. I don't think—

Mr. LONG. Isn't that why the OPEC nations are so willing to put up 50 percent of the facility? I don't know any other program in the world for which they are willing to put up 50 percent of the funds.

Secretary BLUMENTHAL. I think the OPEC nations recognize they have an interest in maintaining a stable world economy and the world—

Mr. LONG. They have an interest in selling their oil, don't they, at high prices?

Secretary BLUMENTHAL. They certainly want to sell their oil.

Mr. LONG. And with this program we are aiding a lot of foreign countries to continue to buy oil at very high prices. Aren't we enabling OPEC to continue to refrain from recognizing that they are overpricing their oil on the world market?

Secretary BLUMENTHAL. We do not do this for the benefit of the OPEC countries.

Mr. LONG. But isn't that, in fact, the result?

Secretary BLUMENTHAL. In my judgment—

Mr. LONG. Aren't we postponing an adjustment based on the facts of the world market?

Secretary BLUMENTHAL. I think we are facilitating an adjustment.

Mr. LONG. We put in \$8.1 billion in the U.S. quota to the IMF in the past, I believe. What happened to all of the money we put in?

Secretary BLUMENTHAL. Why don't you go through the numbers as we have them.

Mr. SOLOMON. We have a quota now, Mr. Long, of SDR \$6.7 billion, which is the equivalent of \$8.107 at present exchange rates.

Mr. LONG. Eight billion dollars is an awful lot of money. What happened to it?

Mr. SOLOMON. It's right there, sir.

Mr. LONG. Right there? Then why don't we use it for this purpose? Why do we have to put in more money?

Mr. SOLOMON. It is being used along with the remaining, the rest of the \$45 billion that is in the—

Mr. LONG. Why do we have to add to it?

Mr. SOLOMON. In the Monetary Fund? We have to add to it for the reason I explained earlier, that right now the usable currency resources of the Fund is only \$5 billion to \$6 billion, which is a historical low, and therefore, the Fund needs more resources. But the money stays. It rotates in and rotates back between debtor and creditor countries, depending on who has a temporary balance of payments need.

RESERVES

Mr. LONG. Supposing the U.S. decided they wanted their \$8 billion withdrawn; what would happen?

Mr. SOLOMON. The Fund would be destroyed in present circumstances by such a complete withdrawal.

Mr. LONG. So we couldn't, as a practical matter, get it back, could we?

Mr. SOLOMON. Neither can any other country. No country will spend all its reserves at once.

Mr. LONG. So instead of calling this an asset, we have really kissed it goodbye for all practical purposes; isn't that true?

Mr. SOLOMON. I think it's an extremely important asset to us, and it's important to our international financial monetary reserves.

Mr. LONG. But if it's a reserve which we can't draw on without wrecking the world, in what sense is it a reserve?

Mr. SOLOMON. No central bank or government will use up all of its reserves. It must have reserves somewhere. If you use your last dollar of reserve, Mr. Long, you would be bankrupt.

Mr. LONG. I understand that.

Mr. SOLOMON. That is a good place to keep it because—

Mr. LONG. You are telling us this isn't really properly an appropriation because we are getting assets in exchange, but they are assets we can't cash, and assets you can't cash, in my opinion, are not assets.

Mr. SOLOMON. That is also true of our gold holdings, because we would not dispose of our gold holdings en bloc to the last dollar.

Mr. LONG. What is going to happen to the money we pay in?

Mr. SOLOMON. We will not pay it in. It will be available for the IMF to draw upon, if needed.

Mr. LONG. Are we going to be in the same situation regarding the \$1.7 billion that we are pledging? Are we going to be in the same situation in another couple of years where we are told this isn't enough, and we have to put in more money? As a matter of fact, isn't there another regular quota increase due in another couple of years for the IMF?

Mr. SOLOMON. The seventh review will be coming along. We will be looking at that during the course of this year. I don't know when governments will agree as to what further replenishment of the Fund will be required, and what the size of that quota review would be. But we do this periodically, of course.

EMERGENCY AID

Mr. LONG. But apparently this periodical review that is coming up is not soon enough, so basically, what you are saying is the International Monetary Fund is in unusual trouble and we have to come to its assistance with emergency aid; isn't that what this amounts to?

Mr. SOLOMON. That is a way of putting it, yes. The IMF's resources are very low and we would not like to run risks with the International Monetary system. It affects our own economy too seriously.

Mr. LONG. We have a deficit of our own. I think today the Chairman of the Council of Economic Advisers says the balance of payments deficit is running about \$17 billion. Why are we putting out more money to help other countries with their balance of payments difficulties? How do we handle our own balance of payments difficulties?

PROPOSALS FOR ADDRESSING BALANCE OF PAYMENTS PROBLEMS

Secretary BLUMENTHAL. We are handling our balance of payments problems by recommending to the Congress that energy legislation be enacted early, by putting forward a program, an economic program which the President has submitted, including a tax program that will ensure growth and competitiveness of American industry; and by providing additional resources to the Export-Import Bank.

Mr. LONG. These are proposals by the Administration. Congress hasn't acted on them yet.

Secretary BLUMENTHAL. That is correct.

Mr. LONG. Has Congress, in the past, been ready to pass the kind of legislation which would solve all of our balance of payments difficulties in the world? Isn't this a highly speculative thing?

Secretary BLUMENTHAL. I would certainly hope Congress will act favorably on measures that will help us to deal with our current account deficits.

Mr. LONG. You can't be sure that is going to happen, and in the meanwhile, you are asking us to cope with our own staggering balance of payments deficit, and, additionally, to put out a couple of more billion dollars to aid other countries. We are not only paying an enormous price for oil, running a huge trade deficit largely because of these high prices, but we are also being asked to come to the aid of other countries. All of this to maintain the high prices of OPEC oil.

Secretary BLUMENTHAL. Mr. Long, do you seriously believe if we are a party to creating confusion in the world monetary and financial situation that that will help the United States?

Mr. LONG. That is your "confusion", not mine. Do you really think we can go on supporting the Arab countries and enabling them to pursue any kind of oil price policies they wish? Bailing them out by coming to the aid of the consumer when they can't sell their products at these very high prices?

OIL PRICES

Wouldn't another possibility be to simply say to the Arab countries, "Lower the price of your oil; you are charging too much, and the world is in difficulties."

Secretary BLUMENTHAL. We are talking about maintaining the viability and the resources of the International Monetary Fund, which is central to the strength and health and vitality of the American economy.

Mr. LONG. You are saying this in very long winded words, but why don't you just recognize the words I just presented to you?

Secretary BLUMENTHAL. Because I don't agree with them.

Mr. LONG. You don't agree that the oil countries are charging more for their oil than would be the equilibrium price in the world market, that there are oil surpluses which can't even be sold at those high prices, and that this is the reason why we are in a balance of payments difficulty. You don't agree with that?

Secretary BLUMENTHAL. I have said on many occasions that the stabilization problems of the different countries exist for many reasons, including the present increase in the price of oil.

Mr. LONG. You don't think the price of oil is a major factor?

Secretary BLUMENTHAL. That is one of the major factors, absolutely.

Mr. LONG. Aren't we, in fact, enabling the Arab countries to continue a policy of which we do not approve, which is harmful to our economy, harmful to the economies particularly of the underdeveloped world, and we are simply saying, all right, in order for you not to have to lower your price on oil we are going to participate in a world program to help lend money to the poor countries so they can continue to pay those high prices for Arab oil?

Now, isn't that in simplified terms the real statement of the situation?

Secretary BLUMENTHAL. That is not the way I would express it at all.

Mr. LONG. You mean that is not the way you like to see the statement made.

Secretary BLUMENTHAL. Yes. I do not like to see it made that way, because I don't think it's correct.

Mr. LONG. If I am not correct, just say in what way I am incorrect, but please say it in simple words.

Secretary BLUMENTHAL. I can only say it in the words in which I can say it. I hope they are simple enough.

We have made it very clear to the oil exporting countries that increases, further increases, in the price of oil at this time would create problems.

Mr. LONG. Why don't we make it clear to them?

Secretary BLUMENTHAL. Would you allow me to finish my statement? As a result of that, the oil exporting countries did not increase their price of oil. It was their choice. They are entitled, they are certainly entitled to charge for it what they can get.

I don't know what you are suggesting that we do other than to ensure that in the circumstances in which they charge a price for their product we do the best we can to avoid reliance on them, and we have helped other countries as well as ourselves to adjust to that situation.

Mr. LONG. Have you ever suggested to them that they lower the price of their oil?

Secretary BLUMENTHAL. That is a suggestion that they have heard many times before.

Mr. STEED. Mr. Chairman, could I ask one question?

Mr. MAHON. One question.

Mr. STEED. We have been talking about the oil and its impact on the use of the International Monetary Fund in relation thereto. I come from an area where the sale of agricultural products is important.

Does it follow that the International Monetary Fund plays an important role in the ability of the American agricultural producers to market their crops to nations throughout the world?

Secretary BLUMENTHAL. Absolutely.

Mr. MAHON. Mr. Conte?

Mr. CONTE. Mr. Secretary, I want to follow up on the questions asked by Al Cederberg and Tom Steed. Wouldn't our balance of payments deficits be relieved by stabilizing the exchange rate of other countries? They will be in a better position to be able to purchase goods and services from the United States.

Secretary BLUMENTHAL. Absolutely. That is really the only way in which we can hope to maintain stability and increase our exports over time.

Mr. CONTE. I would like to look into this more in the future. May I make a suggestion, Mr. Chairman? I know there is a precedent for this. Instead of wasting time deciding what subcommittee you should send it to, let's take it up before the Full Committee.

This is a very, very urgent issue, as I understand it.

Mr. YATES. Mr. Chairman, we don't have a quorum of the Full Committee here today.

Mr. CONTE. I don't mean today. Some future date.

Mr. YATES. Why not send it to the subcommittee to get a thorough review of it?

Mr. CONTE. There is a dispute over what subcommittee should take it.

Mr. YATES. We have sent subjects to two subcommittees before.

HUMAN RIGHTS

Mr. CONTE. We have precedent for full committee hearings. The thing I am concerned about here is Human Rights Amendments, which I understand will be offered, and what effect will that have on this?

I think that is a very phoney issue, and one that should be discussed today.

Secretary BLUMENTHAL. I think the character of the IMF is so substantially different from that of the international development banks that really that question should not properly arise. All IMF members not only have rights, but also obligations that are very important to the international monetary system, as they are to our own economic interests in this country.

If we were to apply human rights considerations to IMF transactions, that in fact would constitute a denial to member countries of the IMF of the rights to which they are legally entitled so long as they meet their obligations under the IMF.

One of the most important obligations in that regard is the obligation to provide financing to the IMF. That is something that they are obligated to do. Thus, we would really seriously impair the ability of the IMF to function.

If you introduce into this kind of an international financial mechanism, which has all of the benefits that have been referred to, political considerations of this kind, they simply could not function and member countries would cease to be willing to meet their obligations since they would be deprived of their rights.

Mr. CONTE. Thank you.

Mr. MAHON. Are there further questions on my right?

Mr. ADDABBO. Mr. Secretary, it never ceases to amaze me. When the world has a problem we can come up with immediate solutions; when our own cities have problems it takes us months and months to come up with a program.

Looking at your statement on page 2 and speaking of this facility, that would almost be a criterion for setting up a program to help our own cities—being able to borrow from the Federal Government, work out their balance of payments, et cetera.

Getting back to this matter before us without taking unnecessary time, why are we seeking to establish a separate facility and not just increase our contributions or everyone's contributions to the International Monetary Fund? Why this separate facility?

Secretary BLUMENTHAL. This is in the first place considered to be a temporary facility for a limited period of years. It has certain other different requirements attached to it.

As I indicated, a country has to have a problem that requires stabilization over a longer period of time, and it has to be of a magnitude larger than amounts available through drawing on the regular tranches. It is supposed to deal with the adjustment requirements in the world that exist at the present time, and hopefully only for a limited period of years.

So it is not therefore quite the same thing as the 6th quota increase and the possible 7th quota increase that is being discussed in parallel.

TEMPORARY NATURE OF THE FACILITY

Mr. ADDABBO. Is there any limit of time on how long our money, if we do contribute to this separate facility, will be tied up? Have there been any regulations promulgated? 1 year, 2 years, 5 years, 10 years?

Mr. SOLOMON. Yes. The maximum period in which countries that are qualified can make drawings is 5 years. Repayment is in 3.5 to 7 years after each drawing. So then the facility ends.

I should point out, Mr. Addabbo, that the United States share in this facility is less than it is in normal quota increases, the normal replenishment. Then our share is around 21.5 percent. In this case it is only 17 percent.

The OPEC countries altogether put up only about 10 percent of quotas—that determines their voting power and that is all they would put under a regular replenishment; under this temporary replenishment they have been putting up 48 percent.

Mr. ADDABBO. It has been mentioned, quite properly, that this will benefit to a great extent OPEC, and is why OPEC is putting up 50

percent. In view of the fact that much of the problems with the balance of trade throughout the world lies at the foot of the OPEC countries, would this not be time to use this wedge to revamp the entire IMF and get the OPEC countries to increase their overall contribution to IMF, rather than to set this 7-year program, which again is going to be a permanent program—it is going to be eventually welded into a permanent program because you are reviewing IMF investments every 7 years?

Would it not be better for the world economy and better for all, now that we have OPEC against the wall on this one question where they may not be able to get paid some of their extravagant bills, now is the chance to get them to increase their contribution to the entire IMF?

I am willing to bet, without looking, that most of that money has gone to the OPEC nations or nations dealing with the OPEC nations, the loans.

VOTING RIGHTS

Mr. SOLOMON. Every country in the world would like to increase its share of the IMF and would be only too happy to put more money in to get a bigger voting position. We want to retain the United States veto on key decisions, and we have such a veto.

These contributions are part of the official reserves of each government, and therefore they are not considered anything but monetary exchange transactions. It is not a real expenditure, and therefore it is "easy money," to use a crude term, for countries to put up to get a bigger voting share in the fund. It is not in our interest—I am not making judgments about any particular country, and I am sure under the normal criteria certain OPEC governments may qualify for larger shares—but it is not in our interest to say to other countries, come put your money in. Participation involves only these monetary transactions, and we do not want to give up our veto share—

Mr. ADDABBO. Are we giving up our veto share under this facility?

Mr. SOLOMON. No. Even though we are putting up only 17 percent, this does not affect our voting.

Mr. ADDABBO. Even with the money given to this new facility?

Mr. SOLOMON. No.

Mr. ADDABBO. Can we not change the rules so that the same rules would apply to the IMF voting?

Mr. SOLOMON. The only other way, other than temporary facility, would be to put it up as regular quotas. Regular quotas are roughly in proportion to voting shares. That is provided for in the charter.

Mr. ADDABBO. If you are changing the charter and changing ground rules—

Mr. SOLOMON. We are not changing the charter.

Mr. ADDABBO. You are changing the ground rules for a temporary facility?

Mr. SOLOMON. Right.

Mr. ADDABBO. Would it not be possible to change the entire ground rules, so we retain this veto power but make those people who have benefits from the fund share a little more of the burden without obtaining the benefits of a full control?

Mr. SOLOMON. It is like a corporation, if you put up 10 percent of the money for the stock, you want 10 percent of the voting power. Traditionally, and we have always insisted on this—

Mr. ADDABBO. But you are not doing it with this facility.

Mr. SOLOMON. On this one we are getting a better deal. We put up 17 percent, but it is not affecting our voting power.

Mr. ADDABBO. What I am saying is, why can we not redo the IMF fund to get the same benefit?

Secretary BLUMENTHAL. Nice work if you can get it, except you cannot get it. It is a good idea but you cannot do it.

Mr. ADDABBO. Except you have the OPEC nations to a certain extent at a disadvantage, where they are looking for this money, and perhaps this is the time you can possibly get it.

Secretary BLUMENTHAL. The Articles of Agreement of the IMF, negotiated many years ago, really preclude the possibility of doing that on regular quota increases. There are dozens and dozens of countries involved. You would never be able to agree to that, that other people put up the money and we have the votes. That is a nice arrangement.

Mr. ADDABBO. Maybe you should try it.

Secretary BLUMENTHAL. I admire you for your ingenuity but I do not think we can get that result.

Mr. ADDABBO. We have it right here.

Secretary BLUMENTHAL. We are very proud of this.

Mr. SOLOMON. This is the best deal since the Louisiana Purchase.

Mr. ADDABBO. It still leaves \$1.7 billion.

Mr. CEDERBERG. Off the record.

[Discussion off the record.]

Mr. CEDERBERG. What would happen if we did not have this facility, and we need the stabilization, would we be using United States dollars from some other appropriations to assist stabilization?

Secretary BLUMENTHAL. We would have a lot more countries in very serious trouble; there would not be enough official resources available for them to carry out these stabilization projects; we would have a lot more disturbance in international exchange statistics; our exports would suffer, agricultural as well as industrial; and the whole world would be worse off. The IMF has functioned well to prevent that situation from occurring. You need those resources.

Mr. STEED. The Chair recognizes the gentleman from Alabama.

Mr. EDWARDS. Thank you, Mr. Chairman.

Have you made a statement on the record where the name Witteveen Facility came from?

Secretary BLUMENTHAL. Yes; it comes from the name of the Managing Director of the IMF, who is a gentleman by the name of Witteveen.

Mr. STEED. It's just that simple.

Secretary BLUMENTHAL. It is just that simple. He had one of the first ideas, he convened the first meeting, and it became known as the Witteveen Facility.

Mr. STEED. I know Mr. Addabbo's concern about New York and the need for money. I was looking at the breakdown of the budget; about 17 percent of our budget goes to States and localities, does it not?

Secretary BLUMENTHAL. I think that is about right.

Mr. STEED. That is what a chart says.

Secretary BLUMENTHAL. OK.

Mr. STEED. Which would be about \$85 billion, if my math is right. So we are really not short-changing the States and localities, are we?

Mr. ADDABBO. We paid in '26, though. We are still being short-changed.

Mr. EDWARDS. Come on down where we live where the taxes are cheaper. Most of us think about the International Monetary Fund as a fund that is there primarily for the benefit of others.

USE OF FUND BY THE U.S.

You say in your statement that we have used the fund 23 times, drawing on our assets for more than \$3.5 billion. Would you give us some examples of what has caused us to draw down on our assets?

Secretary BLUMENTHAL. Yes, I think Mr. Solomon has detailed examples of the occasions when we did that.

Mr. SOLOMON. There have been periods like in the early Seventies when countries would come in, because we were running a big balance of payments deficit, they would come in with dollars and ask us to redeem them for other usable currencies or gold. We do not have other usable currencies but we have gold. Rather than pay out the gold, we drew usable currencies from the fund and paid them, and took those dollars back.

Mr. EDWARDS. Is that typical of most of the 23 instances when we have used the fund?

Mr. SOLOMON. It is true of most of them. There may have been some types of transactions as well where—this gets fairly technical—to facilitate other exchanges in the fund, but in those cases we were also running a balance of payments deficit. In every case it represented a resource for us to draw during a period of time when we were running a balance of payment deficit.

CONSEQUENCES OF FAILURE TO REPLENISH THE FUND

Mr. EDWARDS. Tell me in simple language that Mr. Long and I can understand, what would happen if the Congress does not go along with this request? What is the practical effect of failure to respond to your recommendation?

Mr. SOLOMON. The facility would not be activated. The Fund would continue to operate with its low level of resources; it would mean that you would have a very limited ability to respond, if there were a shock to the international monetary system.

I am not saying that the international monetary system would collapse, by no means; I am saying it would be weakened, if we fail to make this replenishment, that is.

Mr. EDWARDS. Is replenishment the proper word?

Mr. SOLOMON. Well, it is a temporary replenishment, I suppose, is the word.

We are beefing up the resources of the Fund to meet certain special types of problems because of the large imbalances, the large deficits in the world today and the greater need for balance of payments assistance. So I think, even though it is a temporary replenishment, I would still use that word.

Now, there are some other factors. If other countries cannot get access to balance of payments assistance when they need it, then they will put on restrictions, for example, import restrictions. This is very disruptive to our exports and those of the world as a whole, and it also means that they are not pursuing the proper type of stabilization program.

In the long run, they would be much better off if they followed appropriate stabilization programs, as we have seen in the case of Great Britain and Italy. Great Britain, as you know, drew funds from the International Monetary Fund, undertook a proper stabilization program just about a year and a half ago, and is now beginning to show excellent prospects for solid growth and is beginning to repay the Fund. So it is better to have that type of stabilization program rather than to have these abrupt import restrictions which a country will put on if it cannot go to the Fund and get balance of payments assistance as part of that program.

Mr. EDWARDS. Is it fair to say that it would be inappropriate to put this fund in the general category of foreign aid?

Mr. SOLOMON. Yes. It is not foreign aid at all. It is a flow of financing back and forth, a two-way flow. Countries are debtors at some times, creditors at other times.

As the Secretary has pointed out, we have drawn frequently, and Britain has drawn. Other highly industrialized countries have drawn. It is not simply or typically less developed countries who draw from the IMF. In fact, the longest part of total drawings has been by the more developed, industrialized countries.

This is not a foreign aid institution in any sense. It is an institutional propping-up of the international monetary system, and we would really be hurting ourselves badly if we did not prop up this system when it needs propping up, particularly when we can do it with as cheap a price ticket as this.

Mr. STEED. Off the record.

[Discussion off the record.]

Mr. STEED. The committee will recess for 10 minutes.

Mr. MYERS. Mr. Secretary, might we continue to expedite your time and ours too? We in the minority do not get the opportunity very often to function as chairman. So while the chairman is away the minority will play.

TRADE BALANCES

Mr. Secretary, as I look at this, it seems that it is actually used as a fund that we contribute to so that we might participate more in trade and, consequently, we are getting ourselves just a little bit deeper into debt as far as international balance of trade and balance of payments is concerned.

My concern is that we are not going to be exporting more agricultural products; we are not exporting fuel because of our present policy; we are not going to be selling more manufactured goods. What will we be selling that necessitates that we continue to be partners in trade?

Secretary BLUMENTHAL. Well, actually, if you look at our trade balance you will find that on everything but energy we have a surplus of some \$15 billion or so; it is that \$45 billion tab for energy imports

that is causing the very substantial deficit. That means that we are successful in exporting a very large variety of products.

I guess it is something like \$120 billion of exports in total. We have had very good success in exporting agricultural products. I would expect that in 1978 agricultural exports will increase over 1977. Simply with the additional resources that the Export-Import Bank has available, we ought to be able to export manufactured goods in increasing amounts as well. Also, the depreciation of the dollar against certain currencies will make our goods more competitive in certain parts of the world, so we are not without hope.

Mr. MYERS. We certainly need the sales. I do not want to discourage that or do anything that might cause us to be in an inferior position as far as selling more goods abroad. It seems that our policy has been rather negative in this regard, and I think you would gain a lot more votes in Congress if this administration would display a more aggressive interest in foreign sales.

My second question is, is this \$1.7 billion in the budget that you have presented?

Secretary BLUMENTHAL. No. The \$1.7 billion is not in the budget. We are recommending that only \$200 million, representing a contingency reserve for possible—and I emphasize the word “possible”—exchange losses, be subject to appropriation. And that would have to be in a supplemental appropriation for 1978.

Mr. MYERS. Then your request in 1978 would be only for a \$200 million supplemental appropriation?

Secretary BLUMENTHAL. That is correct.

Mr. MYERS. Not for the \$1.7 billion?

Secretary BLUMENTHAL. That is correct.

Mr. MYERS. You have used the term “replenish the fund,” which concerns me. It is not really replenishing. You are not adding, or are you really replenishing a fund that has been absorbed or used up?

Secretary BLUMENTHAL. No, we are adding to the resources of the Fund, as there are additional needs in the world. There has been the 6th quota increase, where the resources were added to, and there may be a 7th quota increase in the future. For now, we have this temporary Witteveen Facility.

Mr. MYERS. Quite frankly, I am familiar with the International Monetary Fund, but this particular separate facility I am not.

ADMINISTRATION OF THE FUNDS

Is there actually an agency that will administer these funds?

Secretary BLUMENTHAL. It will be administered by the normal staff of the IMF.

Mr. MYERS. Why do we call it supplementary? Why not put it directly in the IMF?

Secretary BLUMENTHAL. It is supplemental to the regular quotas and the regular resources that exist in the Fund, and as we testified earlier today, the division between the various participants is somewhat different.

In the normal quota increases, participation is in accordance with the percentage of the quotas that a country has. In this particular instance, financial participation is not determined with regard to those

quotas, but is divided almost equally between a number of industrialized countries and a number of oil-exporting countries.

NON-PARTICIPATING NATIONS

Mr. MYERS. This introduces my next question and probably my last. This has often been called, the IMF, as the Group Ten. Now it is my understanding that of the 10 participating nations, only 7 have offered to contribute to this supplementary fund, leaving out Britain, France and Italy.

In earlier colloquy this afternoon, you identified Italy as possibly—I use the term “possibly”—one of the recipients. Why are these 3 nations not participating? If there is a reason why not, why make Italy participate in these funds when they are not a contributor?

Secretary BLUMENTHAL. The supplemental Witteveen Facility is available to any member of the IMF. So that you do not have to be a contributor to the supplemental facility in order to be eligible to draw on it if you qualify, if you meet the various criteria.

Therefore, even though Italy is not a contributor to the supplemental facility, does not subscribe to it, Italy, like any other member country, like the United States or anyone else, would be able to draw on it if the need arose.

Mr. MYERS. Why are they not participating? They are in the European Common Market; they can protect themselves in this regard against our exports; so why are they not contributing to this fund?

Secretary BLUMENTHAL. The only countries who contributed to it are those with relatively strong economic and financial status at the present time.

As you know, Italy is going through a difficult adjustment process. In fact, they are in the midst of an IMF stabilization program right now. They have certain targets which the IMF has set for them that they have to meet. They have drawn on the IMF, so they are not in a strong enough position where they felt they could participate in this additional facility.

Mr. MYERS. Is that true of Britain and France too?

Secretary BLUMENTHAL. It is true of Britain, which also, as Mr. Solomon indicated, had gone through a stabilization program and had drawn on the fund. France I do not believe has, but France did not feel that they wanted to participate.

Mr. MYERS. As to per capita debt, there are few countries that exceed us. I am not sure we are in a good financial position to help anybody at this time. These debts are subordinate, or are they debts? You say not a debt.

Really, as far as our contribution is concerned, we treat it as an asset.

Secretary BLUMENTHAL. It is an exchange of assets.

LIABILITY FOR REPAYMENT

Mr. MYERS. Let me ask you this question. I do not want to get embroiled in this because I am afraid I could not understand it, being an old country banker; we do not deal in those big terms. But as a

borrower or user of these funds, is there any security that a nation has to give? If so, are they treated as second mortgages, as loans on credit?

Secretary BLUMENTHAL. Mr. Solomon.

Mr. MYERS. Who do they pay back first?

Mr. SOLOMON. We are not lending to countries.

Mr. MYERS. I know that.

Mr. SOLOMON. As a Fund needs more resources, it draws on the creditors. Then the Fund is liable, and it is probably the most prestigious monetary organization in the world and its resources are more than ample to repay. So the Fund is liable for repayment to the creditors.

Mr. MYERS. To the contributing creditor nations?

Mr. SOLOMON. Right.

Mr. MYERS. But no one has ever collected yet?

Mr. SOLOMON. This is a different situation than the quota increases. The quota increases are permanent funding of the International Monetary Fund. The money circulates, flows back and forth as different countries have balance of payments needs.

This, on the other hand, is just a temporary emergency facility and this will be terminated. It automatically will expire, you see. The fund is responsible for repayment to the United States and the other creditors.

Mr. MYERS. Would you provide more for the record on this as far as terms are concerned?

Mr. SOLOMON. Sure.

FACT SHEET ON IMF SUPPLEMENTARY FINANCING FACILITY

1. PURPOSE

To provide supplementary IMF financing to members that (a) face serious balance of payments financing needs larger than their access to regular IMF resources and (b) are prepared to adopt appropriate corrective economic and financial policies.

2. AMOUNTS AND PARTICIPATION

Firm commitments (subject in some cases to parliamentary approval) to provide financing totaling SDR 8,705 million (approximately \$10.2 billion) have been made by fourteen countries, in the amounts listed in Table 1 (as of December 19, 1977). Discussions are still in progress with other countries. The proposed U.S. share of this total is SDR 1,450 million (\$1.7 billion). The facility will enter into force when the IMF has completed formal financing agreements for a total of at least SDR 7.75 billion, including agreements with at least six countries each providing at least SDR 500 million of financing to the facility.

3. TERMS OF FINANCING PROVIDED TO IMF

Period of financing.—Commitments will remain effective for five years. Actual drawdowns will be repaid over 3½ to 7 years, equivalent to an average maturity of 5¼ years.

Interest.—Interest will be adjusted semi-annually, and will be equal to the yield on U.S. Treasury securities of comparable maturity (rounded up to the nearest one-eighth of one percent). A rate of 7 percent will apply until June 30, 1978, based on the rates prevailing at the time the facility was agreed.

Denomination of claims on the IMF.—Special Drawing Rights.

Liquidity of claims on the IMF.—Participants will receive in exchange for their financing liquid reserve claims on the IMF that can be encashed at any time upon representation of balance of payments need. Claims may also be sold

to other participants, other IMF members or other transferees designated by the IMF.

4. TERMS AND CONDITIONS ON USE OF SUPPLEMENTARY FINANCING BY IMF MEMBERS

Eligibility.—There are basically three criteria: (a) the member's balance of payments financing need must be greater than its remaining access to regular IMF resources; (b) the member's problems must justify an adjustment and repayment period longer than applies to the regular IMF resources; and (c) the member must provide a detailed economic program that the IMF is satisfied is adequate to solve the country's problems and is compatible with the IMF's policies on use of its resources in the upper (more conditional) credit tranches.

Access.—Access will parallel access to the IMF's regular credit tranches and Extended Fund Facility. In conjunction with use of regular credit tranches, an eligible member's access to supplementary financing will initially be in an amount approximately equal to its quota in the IMF. The proportions of quota that can be drawn in connection with each credit tranche are shown in Table 2. Supplementary financing will be made available in amounts up to 140 percent of quota in conjunction with use of the Fund's Extended Fund Facility. The IMF may decide to provide larger amounts of financing in special circumstances.

Period of availability.—Members will be able to apply to the IMF for use of the facility at any time within two years of the date the facility enters into force. This period will be reviewed and may be extended for a third year. Drawings will normally be made over two to three years, provided that all drawings must be completed within five years of the facility's entry into force.

Repayment.—Repayment of drawings under the supplementary facility will be made in equal semi-annual installments beginning not later than 3½ years and completed not later than 7 years from the date of drawing.

Charges.—Charges on drawings under the supplementary facility will be equal to the rate of interest paid on financing provided to the facility, plus a margin that will average slightly less than one-quarter of 1 percent. The margin will be used to meet IMF administrative expenses in connection with operations of the facility.

PARTICIPATION IN AND COMMITMENTS TO IMF SUPPLEMENTARY FINANCING FACILITY

	SDR (millions)	Approximate dollar equivalent (millions) ¹	As percent of total
Industrial countries:			
Belgium.....	150	182	1.7
Canada.....	200	242	2.3
Germany.....	1,050	1,271	12.2
Japan.....	900	1,089	10.5
Netherlands.....	100	121	1.2
Switzerland.....	650	787	7.6
United States.....	1,450	1,755	16.8
Subtotal.....	4,500	5,447	52.3
Oil exporting countries:			
Iran.....	685	829	8.0
Qatar.....	100	121	1.2
Saudi Arabia.....	2,063	2,500	23.9
Venezuela.....	500	605	5.7
United Arab Emirates.....	150	182	1.7
Kuwait.....	400	484	4.6
Nigeria.....	220	266	2.6
Subtotal.....	4,118	4,987	47.7
Total.....	8,618	10,434	100.0

¹ At SDR per dollar rate of \$1.21 (the rate for Feb. 9, 1978).

TABLE 2.—RELATIONSHIPS BETWEEN DRAWINGS ON SUPPLEMENTARY FINANCING AND IMF CREDIT TRANCHES

[Percent of quota]

Drawings on credit tranches	Parallel drawings available from supplementary financing facility	
	Before amendment of IMF articles	After amendment of IMF articles
1st credit tranche.....		12.5
2d credit tranche.....	34.0	30.0
3d credit tranche.....	34.0	30.0
4th credit tranche.....	34.0	30.0
Total.....	102.0	102.5

Explanatory Note.—As part of the Jamaica agreement on monetary reform in January 1976, countries' potential access to the credit tranches was temporarily expanded by 45 percent, so that each credit tranche is temporarily equal to 36.25 percent of quota. This expansion will lapse when the amendments to the IMF Articles of Agreement now in process of ratification take effect, and each credit tranche will then revert to 25 percent of quota. As long as this temporary expansion is in effect, drawings of supplementary financing will be available only in connection with drawings on the upper credit tranches, and in an amount equivalent to 34 percent of quota in conjunction with drawings on each of the second, third, and fourth credit tranches.

After the temporary expansion in credit tranches lapses, drawings of supplementary financing will be permitted in conjunction with drawings on the first credit tranche, in an amount not to exceed 12½ percent of quota, and drawings of the equivalent of 30 percent of quota will be permitted in conjunction with drawings on each of the three upper credit tranches. No drawings of supplementary financing will be permitted unless a country has agreed with the IMF on a program extending into the upper credit tranches. The amounts available in conjunction with drawings on the upper credit tranches will be subject to review by the fund from time to time, and may be modified in light of the relative availability of supplementary financing and regular IMF resources.

Mr. MYERS. I would appreciate more information on the interest, and so forth, that is contributed and how contributing nations may sometimes get their money back, if ever.

Secretary BLUMENTHAL. A point on the interest; I do not know if it was made before. The interest we would be getting is slightly greater than the borrowing cost of the Treasury. So we are not losing any money.

Mr. MAHON. The gentleman from Ohio.

Mr. MILLER. Thank you, Mr. Chairman.

I have here a report on H.R. 9214, which is the authorizing legislation for the supplementary financing facility. It states that a regular quota increase, an unwieldy and time-consuming process involving all 132, would not likely provide the new money in time, which means it could not be done that way.

Now, what I am wondering is this, are we setting this up as a separate facility, and are we dividing it 50-50 among the industrial nations and the OPEC nations?

Of the total 132 members, all of those could draw on that fund, is that correct?

Secretary BLUMENTHAL. That is correct.

Mr. MILLER. Do we have any of the 132 member nations that are in arrears in their contributions to the fund now?

Mr. SOLOMON. No. I would like to explain one point. They can only draw on this facility at the same time as they draw on their regular credit facilities under their regular quotas.

This facility is only for those countries that have a larger balance of payments need, a more difficult adjustment period and will need longer terms, therefore, to repay.

Mr. MILLER. Let me rephrase this a little if I may then.

In their regular account, the 132 members would be paying into IMF and the regular account, is that correct?

Mr. SOLOMON. Yes.

Mr. MILLER. Are there any of those nations that are in arrears in their regular account?

Mr. SOLOMON. No, that is not permitted in the fund. This is a very tight operation, with everybody having strict mathematical obligations and entitlements.

Mr. MILLER. Now, another part of the report indicates that in fact it would cause no balance of payments problems if OPEC countries invested the proceeds of its surplus in each country roughly in proportion to that country's deficit. This has not happened.

It falls back a little to the problem that we spoke of earlier where, Mr. Secretary, you and Dr. Long had quite a colloquy concerning the oil problem and the price of oil that the OPEC nations charge us. It does appear that the OPEC nations need this badly. Yet I heard you mention, when you were questioned on what would happen to the fund if we did not enter that fund, as I recall, you stated it would not come into being.

In Mr. Solomon's testimony on the last page, as I recall, it says the others were waiting for us to take the lead, and for our Congress to act.

EFFECT OF U.S. NOT CONTRIBUTING

What would happen if we did not act? What would happen if we say no?

Secretary BLUMENTHAL. If we said no, the facility would not come into being, there would be substantially reduced resources available to the IMF to be used in stabilization efforts of different countries. As a result, there would be a lowering of confidence in the world financial structure and in the international monetary system, and the IMF would be less able to help countries go through these adjustment programs.

That would possibly result in these countries taking other measures, such as putting on import restrictions, in order to straighten out their imbalance. When they do, that would hurt our exports and mean a loss of jobs in this country. So the creation of this facility is not something that we do as a favor to the OPEC countries or that is primarily of benefit to the oil exporting countries: it is something we do because we all have an interest in maintaining our trade.

Indeed, the point can be made that a country like Mexico exports oil and yet they also have balance of payments problems, and the need for internal stabilization. They have an IMF program now, that might want to draw on the resources of the Facility. Mexico, as you know, is a very important market for United States exports. So there are reasons which go far beyond the interests of a few OPEC countries as to why this is a desirable step for us to support.

Mr. MILLER. What would happen, again, if we said no and one of the countries, let's assume it may be that Italy possibly could borrow from the fund. I believe it has been mentioned perhaps that Greece would borrow from the fund. Maybe that is not a good indicator of who might need this, but if that nation did not have the fund to rely on and could not meet their balance of payments, would they then have to stop importing the oil?

Secretary BLUMENTHAL. They would not stop importing the oil because they need the oil to run their economy. They would stop importing other things, probably things that we export; that is what would happen.

Mr. MILLER. But at the present time we are behind in our exporting and we have a total, as I see in your own testimony, of \$170 billion per year, which is our total trade. That is not our exports but our total trade, and we have a deficit, as we said, of some \$309 billion. So for one country we apparently would not be hurt very much, but the OPEC countries would be hurt.

Secretary BLUMENTHAL. No. What would happen is that they would have to cut back on their imports of other things, the kinds of things that we export in that \$120 billion, and it would mean that our deficit might well increase substantially as a result of that.

We have \$120 billion worth of goods and services that we export, and we want to increase that, we do not want to see it decreased.

Mr. MILLER. That is true but, by the same token, would we be better off to keep dollars here, because eventually it seems that the International Funds cost us dollars? Right now there would be in a bill, in this supplemental, \$200 million, and if we were not involved that \$200 million would not be needed. So are we better off in the long run perhaps to keep our dollars here, if we are helping other nations much more than we are helping ourselves?

Secretary BLUMENTHAL. I think we are helping ourselves just as much by maintaining the jobs that are represented by these substantial exports that we are having. Even the \$200 million is no more than a reserve against contingencies, and really it would not be very likely that it would be used, certainly not in its entirety.

GENESIS OF PROGRAM

Mr. MILLER. If I have time for one more question, Mr. Chairman, I would like for you to unravel for us how this thought came about. Someone had to sit down and say, "Look, we have a problem." Someone I would assume would have to say "This country X, this country Y, this country Z, will have a balance of payments deficit" of so many dollars. That would have to be totaled up to come up with a \$10 billion figure, about \$5 billion for the OPEC and \$5 billion for the industrial nations.

Can you tell us how this idea and program were conceived in the beginning and by whom on our part?

Mr. SOLOMON. Mr. Miller, in the last 3 years that we have full data on, 1974, 1975 and 1976, there were approximately \$225 billion of balance of payments deficits, an average of \$75 billion a year. The IMF provided roughly 7 percent of total financing. The bulk of it. Even with this Witteveen Facility we calculate that the IMF share of the global financing of balance of payments deficit will be between 10 and 11 percent, no more than that.

The recycling of surplus funds from surplus countries, whether OPEC or industrialized, will still continue through private capital markets. We have made calculations as to what a strong international monetary system requires in terms of official financial backing, back-up power like this, and we arrived at the conclusion that this was an appropriate order of magnitude.

There is an earlier history to this which might be of interest to you as well.

In the previous Administration it was proposed to the Congress that a special support Fund, composed of OECD countries, be created. The United States took the lead in that. It was negotiated. All other countries ratified. The Congress did not.

The Congress had two main objections. The first was that the OPEC countries were not contributing a dime. The second objection was that only OECD members would be eligible to draw from this.

We came into office, we consulted with the Congress and the chairmen of the various committees said to us that, if you can correct these two defects, as we see the scheme, we would support it.

Mr. Witteveen took the initiative, the Managing Director of International Monetary Fund. With our support, it was negotiated over a 6 months' period, whereby the OPEC countries came in for roughly 50 percent, and all members of the fund, 130-odd countries, are eligible.

The Senate Foreign Relations Committee reported this bill out, I think unanimously. The Senate Banking Committee has reported it out. I know of no opposing votes. House Banking and Currency reported it out by a very large margin. The committees that have studied this in great detail and substance, with whom we consulted as we did the negotiations over a 6 months' period, have been very supportive.

That is the history on this one.

Mr. MILLER. Did I understand you to say that we the United States, then, conceived the idea and we, the United States, contacted the OPEC countries, conveying the message that they had better come through because they were in trouble from the balance of payments problems that their customers have: is that correct?

Mr. SOLOMON. The initiative was on the part of the Managing Director of the fund, Mr. Witteveen, strongly supported by the United States. Secretary Blumenthal and I had considerable bilateral discussions with the OPEC countries, arguing that it was to their interest to come into this because they have an interest in maintaining a strong international monetary system.

You are right basically that this is a product of a deliberate, carefully-thought-through program. It is not an initiative, I assure you, of the OPEC countries. It is our initiative and that of the indus-

trialized countries in which Mr. Witteveen, on behalf of the Fund, took the negotiating initiative and we backed him up.

Mr. MILLER. Mr. Chairman, this could go on quite a while. I think I have used my time.

Mr. MAHON. Yes.

Mr. MILLER. I would be happy to have some questions answered that I will present, if you will answer those for the record.

[Mr. Miller's questions and the answers submitted by the Department of the Treasury follow.]

Question. If the U.S. provides the requested \$1.7 billion for the IMF Supplemental Financing Facility what will be the actual cost to the U.S.? Do we receive interest payments and at what rate? How long would this loan run?

Answer. The only cost to the U.S. that could result from U.S. participation in the Facility would be related to exchange rate changes. An exchange valuation loss to the U.S. would occur if the dollar were to appreciate in terms of the SDR—the unit in which our claims with the IMF are denominated—over the period of U.S. participation in the Facility. In this event, the U.S. could receive in repayment fewer dollars than it had transferred to the IMF. Appropriation of a \$200 million contingency reserve to meet such losses is included in the President's proposed FY 1978 Supplemental.

There will be no interest cost to the Treasury from U.S. transactions under the Facility. The IMF will pay interest to the U.S. at rates slightly above those paid on Treasury securities of comparable maturity (the rate of interest paid by the IMF will be adjusted periodically to reflect changes in market rates).

The U.S. commitment under the Facility would extend for a maximum period of twelve years; our financing could be drawn upon at any time during the first five years; actual drawings would be repaid over 3½ to 7 years, for an average maturity of 5¼ years.

Question. \$200 million would be a reserve to cover possible dollar losses in 1978 when the U.S. incurs a dollar loss with appreciation of the dollar. Is it possible to lose this much for that and later years?

Answer. The \$200 million contingency reserve would be appropriated to cover possible losses for the duration of U.S. participation in the Facility. The appropriation would not be charged until U.S. participation in the Facility terminates—no later than twelve years after the Facility is established. At that time, the extent of any changes in the value of U.S. monetary assets arising from U.S. participation in the Facility can be determined and the appropriation charged to the extent of any valuation losses.

The \$200 million is, therefore, a contingency reserve against losses which might result from an appreciation of the dollar relative to the SDR—the unit in which our claims on the IMF are denominated—during the period our claims are outstanding. While it is impossible to determine exactly what the maximum loss might be, we have considered that \$200 million is reasonable and should be more than adequate to cover any losses which might occur in practice. Even if the total U.S. participation in the Facility of SDR 1,450 million were utilized, the average appreciation relative to the SDR could be as much as 11 percent without fully using up a \$200 million contingency reserve. Since the dollar's weight in the SDR basket is one-third, in order for the dollar to appreciate by 11 percent relative to the SDR, it would have to appreciate by more than 17 percent on average vis-a-vis all other currencies in the SDR basket during the period our claims on the IMF are outstanding. While no one can predict exchange rate changes, a change of this magnitude seems very improbable. The contingency reserve is just that—a contingency—and in no way represents a judgment about what is likely to happen.

Question. This change in the IMF activity represents a change from the traditional role of IMF. Some have criticized this. What is your view?

Answer. While the terms and conditions of the Witteveen Facility differ in some respects from regular IMF financing—in order best to meet the balance of payments financing problems of the next few years—the Facility does not represent a change from the traditional financing role of the IMF. That role, as I see it, is to promote a strong and open world economy by providing balance-of-payments financing to countries in need, in conjunction with internationally responsible adjustment measures by the borrowing countries designed to restore

economic viability and correct the balance-of-payments problem and financing need.

Question. Do you think that the recycling of petro dollars causes risks to the U.S. and to banking systems?

Answer. I do not think the recycling of petro dollars causes serious risks for the U.S. or for the banking system. The bulk of the funds representing the OPEC surplus has been placed in private capital markets, including banks, and then lent to borrowers. Thus both the assets and liabilities (loans and deposits) of the banks and other institutions are increased. International banking activity has expanded greatly in the past few years, but we see no evidence that the banking system as a whole is under severe strain as a result of this expansion. The problems that the international monetary system now faces derive not from the general expansion of banking in recent years, but from the fact that certain individual nations face severe balance of payments adjustment problems and need far larger amount of official financing than will be available in the absence of the Witteveen Facility.

Question. How does the IMF financing affect private banks? Are there adverse effects?

Answer. Private banks make loans on the basis of a borrower's creditworthiness. If they have doubts about a borrower's ability to repay, they will tend to curtail their lending. Adoption of an IMF program by a country usually involves the introduction of policy measures which will improve the country's economic prospects and strengthen its creditworthiness. Thus the experience has been that banks have typically been willing to expand their lending to a country after it has entered into a stand-by agreement with the IMF, because of the prospect of stronger creditworthiness.

Question. If the OPEC nations funded the Supplementary Financing Facility of the IMF instead of investing their petro-dollars in the U.S.A. where they are secure and draw high interest, could that OPEC investment in SFF solve the financing problem there?

Answer. The Witteveen Facility is a cooperative arrangement between the OPEC countries and the major industrial countries. The OPEC countries have provided substantial amounts of funding to the IMF, and would not be willing to provide the entire amount needed for the Witteveen Facility. The approximately 50/50 sharing of participation between the oil-producing and industrial countries—which was agreed after extended negotiation—is a reasonable and equitable way of financing this facility, which will be of benefit to all nations.

Mr. MULLER. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Early.

Mr. EARLY. Thank you, Mr. Chairman.

Mr. Secretary, in your statement you say that this fund is only temporary.

Secretary BLUMENTHAL. That is correct.

ESTABLISHMENT OF FACILITY

Mr. EARLY. When was it originally established?

Secretary BLUMENTHAL. This particular facility has not yet been established. It would not come into being until it is approved by the Congress, until the United States is in a position to make good on its pledge.

ESTABLISHMENT OF THE IMF

Mr. EARLY. I see. But we have had an International Monetary Fund in the past.

Secretary BLUMENTHAL. The International Monetary Fund, I believe, was created in 1945.

Mr. EARLY. Was that established on a temporary basis?

Secretary BLUMENTHAL. No, that was on a permanent basis.

U.S. CONTRIBUTION

Mr. EARLY. Our contribution to this \$10 billion is \$1.7 billion, or 17 percent?

Secretary BLUMENTHAL. That is correct.

Mr. EARLY. Where is that relative to our contribution in the past?

Secretary BLUMENTHAL. In the IMF I believe our share is 21.5 percent.

Mr. SOLOMON. At the moment it is 22.93. It will be about 21.5 percent after the 6th quota increase takes effect.

TOTAL OPEC PARTICIPATION IN IMF

Mr. EARLY. The OPEC countries have not contributed in the past, have they?

Secretary BLUMENTHAL. The OPEC countries are also participants in the IMF, but the sum total of their participation is, I believe, 10 percent.

Mr. EARLY. So if they are going to pick up 48 percent, which countries are withdrawing?

Secretary BLUMENTHAL. Instead of the full IMF membership, with each of 132 countries having a certain share, we here have only 14 countries who are participants in this special facility. So the shares that exist in the regular IMF really do not apply here, it is distributed differently.

Mr. EARLY. Are there reasons why they should not contribute?

Secretary BLUMENTHAL. The only countries that came in were those who are in the relatively strongest economic position, OPEC countries on the one hand and the major industrialized, largest countries on the other, like the United States, Germany, Japan, and a few others.

BENEFITS TO ACCRUE TO OPEC FROM FACILITY

Mr. EARLY. I appreciate, Mr. Secretary, that you want to act in the best interest of the United States, but do you give any credence to Mr. Long's testimony, simply that it might become a vehicle which gives the OPEC countries reason to not consider lowering the oil prices?

Secretary BLUMENTHAL. I do not believe that that has any impact on the price of oil one way or the other. It certainly is a benefit to the OPEC countries, there is no doubt about that, just as it is of benefit to all other countries who are part of the world community.

Mr. EARLY. Is not the supply/demand principle in effect here? If the countries could not pay the higher prices, they could not sit there with their oil?

Secretary BLUMENTHAL. No. Countries need the energy. They would have to be buying the energy. They would have to cut back someplace else. Their factories have to keep running, you know. Where they would cut back would be more than likely, or just as importantly, in products that we export—or in products of countries to whom we export, so you get it in an indirect way.

Mr. EARLY. I am a junior member here, this being my fourth year. It is a bad precedent to pass an appropriation bill before the authorization bill. Do you really feel much of a demand for expediency?

Secretary BLUMENTHAL. The authorization bill actually precedes this.

I understand the vote will be on the House floor next week, Tuesday or Wednesday. So that will really be in the proper sequence.

Mr. EARLY. Just discussing it before the authorization is passed is a bad precedent.

Secretary BLUMENTHAL. We have discussed this matter at some length with the Chairman. It has been before the Congress for some time so this is not—although it is important that it be acted on promptly—it is not a rush job. It is not something that has just come up.

Mr. EARLY. I see.

Thank you, Mr. Secretary.

I have no further questions.

Mr. MAHON. The gentleman from Florida.

Mr. YOUNG. Mr. Chairman, thank you very much.

AMOUNT SUBJECT TO APPROPRIATION

Mr. Secretary, although the \$200 million you will be asking for in the supplemental will go through the appropriations process, I have had the feeling that it has been your desire to avoid bringing this particular \$1.7 billion request to the Appropriations Committee.

Am I right on that?

Secretary BLUMENTHAL. It is correct that we do not feel that the entire \$1.7 billion should be subject to appropriation, that is correct.

Mr. YOUNG. But the full \$1.7 billion would be available and be on call should the Witteveen Facility determine to use it.

Secretary BLUMENTHAL. Yes, but it would be rotated. We would be getting another asset in return on which we could draw, and then we would be repaid within the period specified when the Fund goes out of existence. So I would say that in the past, these transactions with the IMF have been handled as an exchange of assets and have not been subject to any kind of appropriation. This time we would suggest that only the amount that possibly can be subject to some exchange risk be appropriated.

REPAYMENTS AND DEFAULTS

Mr. YOUNG. But should the situation develop that there was no exchange or that the money was not return or repaid, then the \$1.7 billion would in fact be spent as far as we are concerned?

Secretary BLUMENTHAL. Well, there would have to be a default in that case, and as Mr. Solomon has indicated, that has never happened on the part of the IMF. The IMF would be liable to us, and that is the best credit risk you can get.

Mr. YOUNG. I understand what you are saying on that matter, but from my standpoint of someone not really indoctrinated in this international monetary business, and one who is responsible to taxpayers back home for billions of dollars that are spent, if the \$1.7 billion does not get paid back, or we don't get an exchange for it, it is gone. It is in fact spent.

Where in our accounting system will the \$1.7 billion show up? Will it be then added to the national debt or will it show as an expenditure

and an obligation? What I am getting at is the way that I perceive you want to do it, it doesn't appear that it will be accounted for.

Mr. SOLOMON. There is no way that the money cannot be repaid, unless you assume a breakdown of the entire international monetary system. There is absolutely no way, because this is just part of the operations of the International Monetary Fund.

Now as our letter of credit is drawn upon, the money doesn't go in at once, it is just drawn upon as is needed by the Fund. Our net creditor position in the Fund, which is part of the official reserves of the United States Government increases automatically. We are simply changing one form of money for another form of money. It is a temporary drop in our cash balance in the Treasury, the general account, for an increase in other monetary accounts of the Treasury.

Mr. YOUNG. As I admitted to you, I don't understand all of the intricacies of all of this high finance on the international level but I do understand \$1.7 billion. I understand what you are saying, that there is no way that it will not be replaced or repaid.

Secretary BLUMENTHAL. Let me be clear, Mr. Young. I think you are asking what would happen, another way of phrasing your question, if the international monetary system broke down and the IMF went broke, essentially, and couldn't pay back.

URGENCY OF PROBLEM

Mr. YOUNG. Probably that is the thrust of my question.

Secretary BLUMENTHAL. That is really what your question amounts to, and Mr. Solomon's response quite properly is that that is a pretty inconceivable situation.

Mr. YOUNG. Let's go to that question for just a moment, because obviously the situation in the world is different now. It is a new problem, because you tell us that this is a new problem and an urgent problem, so there is something different happening in world finance, in international economics, that is bringing about the need for this Fund, so there is something different; correct?

Secretary BLUMENTHAL. There are greater needs for resources in order to enable countries to carry out stabilization programs.

Mr. YOUNG. And with the problems that are existing and new problems developing, and existing problems expanding, I think we would be safe in assuming that before it gets a lot better, it could get a lot worse.

Secretary BLUMENTHAL. Not in a sense of countries defaulting on their obligations to the IMF. That really has not happened.

FUTURE INCREASES TO IMF RESOURCES

Mr. YOUNG. But suppose the price of oil goes up considerably more, as we discussed yesterday was possible. The present price of oil is creating a lot of the problem today, especially with the United States, which has a very strong economy. Suppose the price of oil does go up considerably again in the next few years. The problems then could be magnified even over and above what they are today; isn't that true?

Secretary BLUMENTHAL. Maybe, and it may be at that point that the IMF may need additional resources. That is why the 6th quota increase

was important. That is why there may be a need for a 7th quota increase. That is correct.

Mr. YOUNG. So in effect we could be just putting off the day of reckoning by simply adding more resources to IMF, rather than trying to balance them out.

I read an article in one of the Washington papers yesterday where an economist stated, and he represents a Taxpayers Union, that if the United States today had to balance its books, it would be bankrupt. Maybe by continuously having to add additional funds or authority to assist troubled countries, we are just postponing the inevitable day for them as well.

Secretary BLUMENTHAL. I think the need to increase resources is really quite logical, because the volume of trade increases. Growth in all those countries requires a larger stock of money, of resources, in order to keep this flow going, so that is not necessarily an indication of moving closer to bankruptcy.

PREREQUISITES TO DRAWING FROM FUND

Mr. YOUNG. Who will decide what country's request will be on order from this Witteveen Facility?

Secretary BLUMENTHAL. The executive branch of the IMF.

Mr. YOUNG. They will determine which countries and how much those countries could draw. The United States couldn't move in and withdraw the entire \$10 billion.

Secretary BLUMENTHAL. If we qualify, because of a balance-of-payments need, if we get into difficulty, then we can draw on it, yes. We would have the same rights as anybody else.

Mr. YOUNG. But it would be subject to the approval of the management of the facility.

Secretary BLUMENTHAL. We would have to demonstrate our need, demonstrate that we qualify.

Mr. YOUNG. Obviously, the need and the problem have been demonstrated or there wouldn't be such a drive to create this new facility.

Isn't that a pretty safe assumption?

Secretary BLUMENTHAL. No. When I was referring to demonstrated need, I was trying to be responsive to your question of how could we get our money back quickly if we needed it. We could get it, draw on that \$10 billion, as a matter of fact, if our own situation got to the point where we had a demonstrated balance-of-payments need to draw on it.

Mr. YOUNG. Obviously, the management would look upon a request for withdrawal from this fund to that country's balance-of-payments problem. I would imagine that the more serious the problem, the more generous the fund would be.

Is that a pretty safe assumption?

Secretary BLUMENTHAL. The size of drawings would be based partly on the quota that that country has. So while the need is one criterion, the size of the country and the size of its quota would be another criterion.

Mr. MAHON. There is a recorded vote in progress in the House. We can vote and then come back.

Mr. YOUNG. I would rather do that, as a matter of fact. I don't like putting questions in the record and having them answered for the record, because we very seldom see the answers in time. I would rather recess and come back, if the Secretary's time is such that that may be done.

[Short recess.]

URGENCY OF PROBLEM

Mr. YOUNG. Mr. Secretary, I apologize. We were talking about the urgency of the problem I think when we broke up.

First of all, there is a problem; correct?

Secretary BLUMENTHAL. There is a problem, yes.

Mr. YOUNG. Next you say that the problem is urgent.

Secretary BLUMENTHAL. Yes.

Mr. YOUNG. Can you explain to me the urgency?

Secretary BLUMENTHAL. The urgency lies in the fact that the resources of the Fund that are now available for stabilization programs, available for additional programs, are on the order of \$5-\$6 billion. Therefore in view of the fact over the next several years a number of countries may be going through stabilization programs, it is highly desirable to have additional resources available. This \$10 billion should be added to the IMF resources that are now available.

Mr. YOUNG. If we are able to know for sure that there is a problem and we know for sure that it is urgent, we must be able to have a pretty good idea of where to look for that problem. In other words, we should be able to look towards the part of the world where the problem exists; is that right?

Secretary BLUMENTHAL. It could be in any number of places. It is really very difficult to point to a particular country and say that is the country that is going to apply. It really depends on the circumstances.

Mr. YOUNG. Mr. Secretary, why is that?

Secretary BLUMENTHAL. I am sorry?

Mr. YOUNG. Why is that? If we know the problem is there and we really feel the urgency, why is it that it is hard to determine where that problem or where that urgency is?

Secretary BLUMENTHAL. I don't think that it is for us to say this country or that country will apply. We don't know. It depends on the economic developments in those countries, which could go either way over the next several months or the next year. It could be any number of countries in the developing world—in Latin America, in Africa or elsewhere—or it could be some developed countries in Europe.

PURPOSE OF FUND

Mr. YOUNG. The funds that we are talking about are not going to go for development though; correct?

Secretary BLUMENTHAL. Oh, no. This is not economic aid.

Mr. YOUNG. Right. That is what I understood, that it was not economic aid.

Secretary BLUMENTHAL. Yes.

Mr. YOUNG. And it was not for development.

What about the argument that we hear so often that really what this fund is going to be used for is to take care of countries that are already

so far in debt to private lending agencies that they have to have this money to actually survive economically?

Secretary BLUMENTHAL. No. I think really this is quite different. It is for economic stabilization. It allows countries to determine what kind of internal programs they will have in order to get back on an even keel. By signing an agreement with the IMF, countries are better able to go into the private market and to get much more in the way of resources from the private banks.

The total amount of resources that come through the IMF are only a very small percentage of the total amount of borrowing by countries—about 7 percent only. This is a way in which a country can establish its credibility, its willingness to go through a stabilization program and—with that “Good Housekeeping Seal of Approval”—can then go out and borrow additional amounts from private sources.

ADEQUACY OF PROPOSED FUNDING

Mr. YOUNG. With the problem that exists in many parts of the world relative to balance of payments, how much of a solution is this \$10 billion going to be? It looks to me like it will be merely a drop in the bucket.

Secretary BLUMENTHAL. That is why the additional \$10 billion that this supplemental facility involves would be an important addition. Even that is only a drop in the bucket, in terms of what may be required in total by countries who have to borrow. But it will be an important key to getting access to the capital markets. A bank or financial institution that is approached to make a loan will want to see whether there is a chance for stabilization in the borrowing country. If there is an IMF program in effect then the assurance of a workable system with some milestones to be met is much greater.

Mr. YOUNG. If Peru or Zaire were to make applications for funds from this facility, would it be your position that they should be permitted to withdraw SDR's?

DRAWING RIGHTS OF MEMBER NATIONS

Secretary BLUMENTHAL. If they are members of the IMF, they have the same rights and obligations as any other country of the 132 or so members. If in the opinion of the Managing Director and Executive Board they meet the criteria for this supplemental facility, and if they assume the obligations of the stabilization program negotiated with the fund, they would have the same right to draw on this as any other country.

Mr. YOUNG. Would that same answer then apply to Uganda, Vietnam, Laos and Cambodia, who also are members of IMF?

Secretary BLUMENTHAL. It would apply to all member countries of IMF.

Mr. YOUNG. So we are concerned about their economic stability, whether they are Communist and aggressive and vicious like Vietnam in its relationship now with Cambodia. They would still have a right to the funds that we are providing.

Secretary BLUMENTHAL. We don't have, as a member country, any concern to help them particularly. We certainly don't. But this is an

international fund established in an international institution, established to maintain stability in the world. All member countries have certain rights and obligations. These rights and obligations are exercised without reference to any political considerations, and none of the 132 countries under the charter and the Articles has a right to deviate from them introducing political considerations.

HUMAN RIGHTS

Mr. YOUNG. You know with such a strong position that the President has taken on the question of human rights, it is just amazing to me that his administration would support contributions to any fund that might help stabilize or end up in the hands of a nation like Vietnam, that is not only going to get U.S. money through the World Bank, through the United Nations Development Program, and now possibly through IMF from this stabilization fund, and I have a hard time reconciling in my own mind why it is that we can speak out so strong for human rights, but yet we are probably making money available to go to a country like Vietnam. I have difficulty with that.

PRIVATE LOANS

Mr. Secretary, you talked about how the private loans might be more available to a country that can show stability because of its involvement in this IMF fund.

Did I quote you correctly, or state your statement correctly?

Secretary BLUMENTHAL. You are right, that if a country has entered into a stabilization agreement with the IMF, it has an easier time securing private loans.

DEBT PROBLEMS OF DRAWING NATIONS

Mr. YOUNG. I do have a problem with this whole question, to be very honest with you. My real problem is this: By doing this, by making more private loans available, or any other types of loans through the multilateral international banks, it just looks to me that we are in fact helping many countries get so far in debt that they will never get out.

Am I wrong on that? If I am wrong, I would like to know why.

Secretary Blumenthal. I think there is a substantial difference between this and the international development banks who are making development aid available. The IMF's resources are used for stabilization programs particularly designed to get countries out of trouble. They have to make commitments about what they will do to correct their internal situation, to balance the books, to cut down on their spending, to raise taxes. That is really quite a different situation from where we are talking about making contributions of economic aid or through development bank, a quite different purpose.

Mr. YOUNG. Was there testimony before the legislative committee on this authorization bill that went into the extent of those requirements for change or improvement? Did you discuss that with them?

Secretary BLUMENTHAL. I did not testify before that committee. I think Mr. Solomon did.

Do you want to speak to that?

Mr. SOLOMON. The committee went into great detail, Mr. Young, in regard to the types of conditionality in the IMF standby programs.

Do you have something specific in mind?

Mr. YOUNG. No. You have talked about having certain guidelines that countries would have to follow if they are going to get this IMF help.

Mr. SOLOMON. Right.

Mr. YOUNG. They are going to have to clean up their fiscal act, so to speak.

Mr. SOLOMON. Let me explain very briefly. The typical IMF stabilization program requires that the public sector deficit be reduced, if it is excessive. The way of doing that is normally left open to the government. It can raise taxes, raise revenues, or it can reduce expenditures.

Second, if the domestic monetary base is excessively inflating, then they put in ceilings on monetary expansion. They work out with the government what the permissible rates of monetary growth would be.

Third, if the exchange rate is unrealistic, so that the country's economic growth is being severely hurt, then they work out with the government what the exchange rate policy would be.

These are the three main areas, because they do not look at projects. They do not look at specifics in that sense. They look at the broad monetary and macro-economic factors.

Mr. MAHON. Mr. Solomon may expand his remarks for the record in response to the question.

Has the gentleman from Florida further questions?

ANTICIPATED SUCCESS OF PROPOSED FACILITY

Mr. YOUNG. All right, Mr. Chairman. Just let me ask one more question.

Do you believe this effort will be successful enough over the period of time you anticipate this facility will be in existence, and will that be the end of it, or do you expect that we will increase it and extend it, add to it?

Secretary BLUMENTHAL. I don't expect that this supplemental financing facility will be increased or extended over this period. There no doubt will be consideration of whether or not there should be a 7th quota increase, and eventually other quota increases in the normal course of events, but this particular facility I think will stand on its own feet. It will go out of existence as contemplated.

Mr. YOUNG. Mr. Secretary, I appreciate your time and consideration, yours too, Mr. Solomon, and yours too, Mr. Chairman. Thank you very much.

Mr. MAHON. We have a few questions that we will ask you to supply information on for the record. We thank you for your patience and for your assistance. We will give this matter very serious consideration. We realize that you feel that this would be a stabilizing influence throughout the world, and that it would be helpful to the United States and to the economy of the United States.

We hope that in looking at the transcript you will feel at liberty to include information that will be helpful to us in making sure what

the real facts are, and what you feel the proposed action by the Congress would do for the United States. Of course our principal interest, as I know yours is, is that of the United States.

Secretary BLUMENTHAL. Right.

Mr. MAHON. The United States does not exist in a vacuum. It is part of the entire world.

Thank you very much.

Secretary BLUMENTHAL. Thank you very much, Mr. Chairman.

[Mr. Mahon submitted the following questions for the record. The responses were provided by the Department of the Treasury.]

Question No. 1: Mr. Secretary, you have generally alluded to it in your statement, but could you discuss more specifically why this new fund is so urgently needed? Would it make any difference if the Appropriations Committee just handled it in the regular manner and reported a bill in May or June?

Answer. The Witteveen Facility is needed urgently to reinforce the ability of the International Monetary Fund to meet world balance of payments financing needs and promote economic stabilization by member countries in a period of particular difficulty, thus helping to assure a stable and smoothly functioning international monetary system.

The U.S. economy depends heavily on, and benefits greatly from, the international monetary system, which provides the framework for world trade and financial flows. A great deal of U.S. economic activity, in a wide variety of products, depends on export markets overseas. For example, our exports account for on the order of one-eighth of manufacturing jobs and nearly one-third of farm acreage and the dollar is the principal currency in the international monetary system. *In order to reduce unemployment, in order to achieve our growth objectives, in order to maintain a strong dollar, it is essential that we have an open and growing world economy.*

The need for the Facility arises from the unprecedented imbalances in international payments resulting from the quintupling of oil prices, deep and pervasive recession, persistent inflation, and hesitant economic recovery and growth in most countries. Large imbalances are expected to continue for the next few years. The need for international financing has grown rapidly as a consequence of these developments, and countries have borrowed in the private financial markets—as well as from official sources of financing, primarily the IMF—on an unprecedented scale.

Some countries are approaching or have reached the limits of their creditworthiness and must take measures to adjust and place their external positions on a more sustainable basis. In the absence of adequate financing, countries facing serious payments difficulties could be compelled to adjust abruptly through measures harmful to their own economies and the world economy generally—for example, excessive domestic deflation, trade restrictions and other controls on international transactions, or inappropriate exchange rate policies. Others could react in kind, in an effort to protect their own positions from the effects of such measures. Such a process would have an extremely serious and adverse impact on the U.S. and world economies. It is clearly in the interest of the United States and other countries to minimize such risks by assuring that official balance of payments financing is available to meet potential needs, and by assuring that such financing is used to support cooperative programs of deliberate and orderly adjustment, designed to restore borrowers' creditworthiness and place their external positions on a more sustainable basis.

The IMF is the world's principal source of official balance of payments financing, and its lending policies are designed to promote needed adjustment through internationally appropriated policies. As a consequence of the payments developments noted above, recourse to the IMF has been very heavy over the past few years. Its resources are now very low, both by historical standards and in relation to potential needs for balance of payments financing. *There is an urgent need for additional IMF resources; the Witteveen Facility is designed to meet this need.* It will support sound and effective adjustment programs by borrowers whose needs are particularly serious and exceed amounts available under their normal access to IMF resources.

The Witteveen Facility was negotiated in 1977 on very favorable terms for the United States. All other participants have been prepared to activate the Facility for months—no other nation requires appropriations to participate, U.S. leadership and credibility in the international financial arena are at stake. Further delay in U.S. participation can only add to the uncertainties which now exist in the international monetary system—uncertainties which adversely affect U.S. economic performance and the stability of the dollar—and could lead countries to take actions which would be harmful to the U.S. and world economies.

Question No. 2: Mr. Secretary, one of the concerns we have in this Committee is the ever-increasing requests for foreign aid. Is this request foreign aid or something else? Please be very specific in answering this.

Answer: The Witteveen Facility will not provide foreign aid or development assistance. It will help enable the IMF to provide temporary balance of payments financing to members—*developed and developing alike*—experiencing payments problems.

The International Monetary Fund is the world's central *monetary* institution, not a development bank or aid agency. It differs fundamentally in character, purpose and operation from the international development banks. The purpose of the IMF is to promote international monetary cooperation and to foster an open, growing world economy. Its resources are used to meet members' general balance of payments needs, not for the financing of a specific project as is typically the case in foreign aid and development lending. There is no "one way flow" of resources in the IMF from developed to developing countries, as is in the case in the development banks. All members have an obligation to provide resources when they have a balance of payments need.

The Facility will be open to all IMF members, developed and developing alike, on the basis of uniform terms and criteria. Financing provided under the Facility will be keyed to implementation by the borrowing member of a stabilization program designed to correct the member's balance of payments problem and enable it to repay the loan. Such programs are aimed at improving the broad macroeconomic conditions in a country. Financing from the Facility will be relatively short-term (average maturity of 5¼ years) and at market interest rates (the U.S. Treasury borrowing rate at comparable maturity).

Question No. 3: Mr. Secretary, are you confident we will actually get our money back in this program?

Answer: Yes, I am completely confident that financing provided by the U.S. will be repaid as scheduled. The stabilization program which a borrowing member is required to develop and implement in conjunction with borrowing under this Facility is designed to correct the member's balance of payments problems and enable it to repay the loan.

The repayment schedule provides for repayment in equal semi-annual installments beginning not later than 3½ years and completed not later than 7 years from the date of drawing. A borrowing member will be expected to make early repayment, however, as its balance of payments and reserve position improves. The IMF has an excellent record. There has never been a default.

Question No. 4: Mr. Secretary, we have had long discussions about how much budget authority is required for this program and the extent to which this fund should be subject to the regular appropriations process.

Could you give us your views on this?

Answer: U.S. transactions with the IMF under the Witteveen Facility are monetary exchanges. When the U.S. provides dollars under the facility, it will acquire, in exchange, a liquid claim on the IMF, which is counted as part of official U.S. international monetary reserves. The only potential expenditures that may be incurred in connection with U.S. participation in the facility are possible valuation losses on U.S. holdings of monetary assets because of exchange rate exchanges. These losses can arise because the U.S. will provide dollars to the IMF, while the IMF's transactions, and so the amount of the U.S. claims on the IMF, are denominated in SDR's.

The U.S. could have exchange valuation losses on its holdings of monetary assets only if the dollar value of the SDR appreciates on a net basis over the life of the Witteveen Facility. In that event, the \$200 million contingency reserve appropriation would be charged. On the other hand, if the dollar value of the SDR were to depreciate on a net basis over the life of the Facility, the resulting exchange valuation gain would be recorded as a miscellaneous receipt to the Treasury.

Accordingly, the President's proposed supplemental appropriations for FY 78 include \$200 million for this contingency reserve. The \$200 million reserve would constitute new budget authority, and any charges against the reserve would constitute budget outlays.

Question No. 5: Mr. Secretary, could you provide a list of participating countries in the IMF along with their current balance of payments situation?

Answer: Available balance of payments information for IMF members covering the years 1970-76 is provided in the enclosed Supplement to the IMF's "Balance of Payments Yearbook." The data is denominated in Special Drawing Rights. Data on current account balances is provided separately, in dollars, along with the official 1977 figures for the U.S. The tables in the "Balance of Payments Yearbook" include all IMF member countries plus Switzerland with the exception of the following, for which no data is available:

Oman	Cambodia
Qatar	Lao, P.D. Republic
United Arab Emirates	Nepal
Grenada	Viet Nam
Netherlands Antilles	Burundi
Surinam	Comoros
Bahrain	Guinea Republic
Lebanon	Lesotho
Afghanistan	Liberia

The estimated 1977 current balances for OECD countries (except the U.S.) are given in the table below.

<i>Current balances of major OECD countries¹</i>		<i>Billions</i>
1977:		
Canada	-----	-\$4.5
Japan	-----	10
France	-----	-3
Germany	-----	2.25
Italy	-----	1
United Kingdom	-----	.75
Belgium-Luxembourg	-----	.5
Netherlands	-----	.5
Ireland	-----	-.5
Denmark	-----	-1.75
Norway	-----	-5.25
Sweden	-----	-3.25
Finland	-----	-.25
Iceland	-----	0
Austria	-----	-2.75
Switzerland	-----	3.25
Spain	-----	-2.5
Portugal	-----	-1.25
Greece	-----	-1.25
Turkey	-----	-2.75
Australia	-----	-3
New Zealand	-----	-.75

¹ Goods, Services, and Net Private and Official Transfers.

U.S. current account: 1972-1977

<i>Balance on Current Account:</i>	<i>Billions, rounded</i>	
1972	-----	-\$9.9
1973	-----	-.4
1974	-----	-1.9
1975	-----	11.6
1976	-----	-1.4
1977	-----	-20.2

Source: Treasury: Office of Balance of Payments March 22, 1978.

TABLE 1.—GOODS, SERVICES, AND TRANSFERS

[In millions of U.S. dollars]

	1970	1971	1972	1973	1974	1975	1976
World.....			2,171	9,739	1,675	-6,996	-10,426
Industrial countries.....	8,332	10,845	6,592	9,607	-18,007	11,932	-9,089
Canada.....	1,077	422	-388	107	-1,540	-4,719	-4,230
Japan.....	1,970	5,797	6,624	-136	-4,693	-682	3,680
Austria.....	-20	-107	-187	-329	-457	-335	-1,486
Belgium.....	713	846	1,142	1,153	911	705	-299
Denmark.....	-544	-423	-63	-464	-981	-492	-1,906
France.....	297	530	297	-691	-5,942	-3	-6,033
Germany.....	844	876	748	4,371	9,721	3,894	3,399
Italy.....	902	2,041	2,266	-2,510	-8,039	-530	-2,856
Netherlands.....	-522	-159	1,290	2,342	2,061	1,658	2,415
Norway.....	-242	-524	-59	-365	-1,116	-2,506	-3,793
Sweden.....	-265	214	269	1,215	-933	-1,624	-2,464
Switzerland.....	70	80	220	280	171	2,587	3,501
United Kingdom.....	1,669	2,580	257	-2,258	-8,338	-3,759	-2,524
Other Europe.....			833	251	-9,160	-10,532	-10,827
Finland.....	-240	-341	-117	-389	-1,215	-2,183	-1,171
Greece.....	-405	-364	-404	-1,185	-1,241	-999	-1,084
Iceland.....	7	-44	-20	-13	-155	-144	-24
Ireland.....	-183	-183	-125	-224	-679	-66	
Malta.....	-6	6	25	36	13	64	63
Portugal.....			354	341	-830	-832	-1,226
Spain.....	79	856	581	585	-3,233	-3,488	-4,287
Turkey.....	-70	24	124	615	-634	-1,848	-1,964
Yugoslavia.....	-348	-359	415	485	-1,186	-1,036	
Australia, New Zealand, South Africa.....	-2,063	-2,243	688	596	-5,199	-4,426	-4,109
Australia.....	-854	-812	561	474	-2,614	-582	-1,391
New Zealand.....	-29	47	249	212	-1,128	-1,400	-751
South Africa.....	-1,180	-1,478	-122	-90	-1,457	-2,444	-1,967
Oil exporting countries.....	-587	1,067	999	5,120	55,155	26,937	34,487
Algeria.....	-126	43	-124	-443	160	-1,661	-883
Indonesia.....	-310	-372	-334	-476	598	-1,109	-907
Iran.....	-507	-118	-388	154	12,267	4,707	5,064
Iraq.....	64	141	505	746	3,033	2,704	
Kuwait.....							
Libya.....	645	783	238	66	1,832	59	2,481
Nigeria.....	-368	-406	-342	-8	4,897	42	-342
Saudi Arabia.....	71	910	1,473	4,293	26,702	19,986	24,154
Venezuela.....	-56	86	-29	788	5,666	2,209	1,458
Other less developed areas.....	-7,826	-10,268	-6,941	-5,835	-21,114	-30,907	-20,888
Other Western Hemisphere.....	-3,398	-4,788	-4,349	-4,457	-13,104	-16,121	-11,220
Argentina.....	-159	-387	-224	715	125	-1,282	648
Bolivia.....	-23	-40	-45	-21	117	-159	-119
Brazil.....	-837	-1,638	-1,690	-2,157	-7,961	-7,053	-6,625
Chile.....	-91	-198	-471	-279	-178	-565	43
Colombia.....	-293	-454	-190	-55	-350	-109	341
Costa Rica.....	-74	-114	-100	-112	-266	-218	-202
Dominican Republic.....	-125	-124	-48	-98	-242	-61	
Ecuador.....	-113	-156	-77	7	38	-220	-1
El Salvador.....	7	-18	10	-48	-140	-99	50
Guatemala.....	-8	-49	-12	8	-103	-66	-8
Haiti.....	2	4	7	-1	-22	-27	-13
Honduras.....	-64	-23	-13	-35	-106	-120	-109
Mexico.....	-1,068	-835	-916	-1,415	-2,876	-4,042	-3,312
Nicaragua.....	-40	-45	22	-66	-257	-185	-66
Panama.....	-64	-73	-99	-111	-224	-169	-195
Paraguay.....	-16	-23	-5	-16	-54	-90	-95
Peru.....	202	-34	-31	-261	-725	-1,541	-1,193
Uruguay.....	-45	-64	59	37	-133	-203	-74
Bahamas.....				-40	-101	37	58
Barbados.....	-42	-35	-43	-52	-48	-42	-57
Guyana.....	-21	-6	-15	-63	-9	-23	-140
Jamaica.....	-153	-172	-197	-248	-92	-283	-303
Netherlands Antilles.....	-251	-117	-64	-104	-175	-38	-35
Surinam.....	-13	-7	-6	-16	6	131	24
Trinidad and Tobago.....	-80	-138	-161	-26	271	302	204

TABLE 1.—GOODS, SERVICES, AND TRANSFERS—Continued

[In millions of U.S. dollars]

	1970	1971	1972	1973	1974	1975	1976
Other Middle East	-859	-815	-240	-172	-1,924	-3,612	-2,389
Cyprus.....	-22	-15	-25	-78	-72	-37	-11
Egypt.....	-154	-207	-170	77	-327	-1,397	-807
Israel.....	-585	-462	-48	-470	-1,596	-2,281	-1,054
Jordan.....	-17	-60	4	12	9	67	82
Syrian Arab Republic.....	-70	-58	28	339	167	93	-772
Yemen Arab Republic.....					-5	129	297
Yemen, Peoples Democratic Republic/.....	-9	-11	-28	-51	-100		
Other Asia			-2,021	-595	-4,972	-7,006	-3,674
Bangladesh.....				-236	-475	-571	-260
Burma.....	-63	-43	-46	-60	-7	-80	-30
China, Republic of.....	1	172	512	565	-1,115	-587	396
India.....	-392	-643	-153	-529	1,207	-148	
Korea.....	-623	-848	-370	-307	-2,027	-1,888	-308
Malaysia.....	8	-108	-248	105	-273	-186	
Pakistan.....	-667	-482	-241	-71	-917	-1,052	-778
Philippines.....	-48	-2	7	474	-207	-923	-1,105
Singapore.....	-572	-724	-531	-606	-1,121	-796	-876
Sri Lanka.....	-59	-36	-33	-25	-136	-109	-6
Thailand.....	-250	-175	-51	-46	-87	-607	-469
Fiji.....	-14	-28	-32	-57	-29	-24	-38
Papua New Guinea.....			-24	205	217	-22	
Western Samoa.....	-5	-3	-11	-8	-1	-12	-13
Other Africa	-486	-1,231	-817	-594	-1,099	-4,228	
Benin.....	-1		-6	-11	2	-22	
Botswana.....						-34	
Cameroon.....	-30	-44	-55	-17	-17	-153	-108
Central African Empire.....	-12	-9	1	-3	-15	-37	6
Chad.....	2	3	12	-7	-4	-60	-5
Congo, Peoples Republic.....		-67	-94	-78	-93	-246	-224
Equatorial Guinea.....	-6	-2	-8	-1	16		
Ethiopia.....	-32	-45	8	75	55	-46	-33
Gabon.....	-3	18	-4	-36	210	58	28
Gambia.....		-1		-4	6	11	-17
Ghana.....	-68	-146	109	127	-172	-2	-89
Ivory Coast.....	-38	-106	-97	-219	-61	-384	-206
Kenya.....	-49	-112	-68	-126	-308	-215	-84
Madagascar.....		-40	33	-11	-24		
Malawi.....	-35	-33	-49	-28	-35	-78	
Mali.....	-2	-9	-12	-28	-36	-54	-33
Mauritania.....	-5			14	47	-43	-56
Mauritius.....	8	-5	16		54	18	
Morocco.....	-124	-59	48	97	229	-538	-1,397
Niger.....		16	12	25	-13	-8	
Rwanda.....	7		-5	22	1	-10	17
Senegal.....	-16	-26	11	-101	-66	-86	
Sierra Leone.....	-16	-20	-9	-29	-61	-63	
Somalia.....	-6	1	-7	-39	-52		-69
Sudan.....	-42	-42	-52	25	-275	-430	-166
Swaziland.....					55	22	25
Tanzania.....	-36	-100	-66	-108	-273	-238	-3
Togo.....	3	-4	-13	-6	132	-66	
Tunisia.....	-53	6	-4	-61	29	-183	
Uganda.....	20	-86	16	43	-24	-56	43
Upper Volta.....	9	1	4	3	-4	-42	
Zaire.....	-64	-125	-365	-279	-472	-600	
Zambia.....	108	-248	-208	143	77	-611	

Question No. 6: Mr. Secretary, could you explain the difference between this fund and the regular IMF program?

Answer: The Witteveen Facility is specifically designed to meet the official balance of payments financing needs of a limited number of countries experiencing particularly serious payments difficulties and with financing needs which are large relative to their normal access to IMF financing. Accordingly, there are a number of differences between the terms and conditions of the Facility as compared to regular IMF operations both in the provision of the financing and in its use by borrowing members.

The financing for this Facility is being provided by seven industrial and seven OPEC nations (see attached Fact Sheet), whereas the financing for regular IMF

operations comes from members' subscription payments. (A general increase in IMF quotas—and the accompanying increase in members' subscription payments—is the regular means of increasing IMF resources, but it is a lengthy and time-consuming process.) The interest rate paid to participants providing financing and charged borrowers under the Facility will be tied to the U.S. Treasury borrowing rate and will be substantially higher than the interest rate on normal IMF transactions. Financing will be available over periods of two to three, as compared to the usual one-year period for regular IMF stand-by arrangements, and in amounts greater than are available under regular credit tranche access, reflecting the particularly serious adjustment problems to which the Facility is directed (see Fact Sheet for detailed explanation of access under Facility). The period of repayment will also be somewhat longer than with regular IMF borrowing, with repayment scheduled in installments beginning not later than 3½ years and completed not later than 7 years from the date of drawing (as compared to 3 to 5 years under regular IMF borrowing arrangements). The policy conditions associated with financing by the Facility are the same as the conditionality of IMF lending in the "upper" (more conditional) credit tranches.

FACT SHEET ON IMF SUPPLEMENTARY FINANCING FACILITY

1. Purpose

To provide supplementary IMF financing to members that (a) face serious balance of payments financing needs larger than their access to regular IMF resources and (b) are prepared to adopt appropriate corrective economic and financial policies.

2. Amounts and Participation

Firm commitments (subject in some cases to parliamentary approval) to provide financing totaling SDR 8,603 million (approximately \$10.5 billion) have been made by fourteen countries, in the amounts listed in Table 1 (as of February 17, 1978). Discussions are still in progress with other countries. The proposed U.S. share of this total is SDR 1,450 million (\$1.7 billion). The facility will enter into force when the IMF has completed formal financing agreements for a total of at least SDR 7.75 billion, including agreements with at least six countries each providing at least SDR 500 million of financing to the facility.

3. Terms of Financing Provided to IMF

Period of Financing. Commitments will remain effective for five years. Actual drawings will be repaid over 3½ to 7 years, equivalent to an average maturity of 5¼ years.

Interest. Interest will be adjusted semi-annually, and will be equal to the yield on U.S. Treasury securities of comparable maturity (rounded up to the nearest one-eighth of one percent). A rate of 7 percent will apply until June 30, 1978, based on the rates prevailing at the time the facility was agreed.

Denomination of Claims on the IMF. Special Drawing Rights.

Liquidity of Claims on the IMF. Participants will receive in exchange for their financing liquid reserve claims on the IMF that can be encashed at any time upon representation of balance of payments need. Claims may also be sold to other participants, other IMF members or other transferees designated by the IMF.

4. Terms and Conditions on Use of Supplementary Financing by IMF Members

Eligibility. There are basically three criteria: (a) the member's balance of payments financing need must be greater than its remaining access to regular IMF resources; (b) the member's problems must justify an adjustment and repayment period longer than applies to the regular IMF resources; and (c) the member must provide a detailed economic program that the IMF is satisfied is adequate to solve the country's problems and is compatible with the IMF's policies on use of its resources in the upper (more conditional) credit tranches.

Access. Access will parallel access to the IMF's regular credit tranches and Extended Fund Facility. In conjunction with use of regular credit tranches, an eligible member's access to supplementary financing will initially be in an amount approximately equal to its quota in the IMF. The proportions of quota that can be drawn in connection with each credit tranche are shown in Table 2. Supplementary financing will be made available in amounts up to 140 percent of quota in conjunction with use of the Fund's Extended Fund Facility. The IMF may decide to provide larger amounts of financing in special circumstances.

Period of Availability. Members will be able to apply to the IMF for use of the facility at any time within two years of the date the facility enters into force. This period will be reviewed and may be extended for a third year. Drawings will normally be made over two to three years, provided that all drawings must be completed within five years of the facility's entry into force.

Repayment. Repayment of drawings under the supplementary facility will be made in equal semi-annual installments beginning not later than 3½ years and completed not later than 7 years from the date of drawing.

Charges. Charges on drawings under the supplementary facility will be equal to the rate of interest paid on financing provided to the facility, plus a margin that will average slightly less than one-quarter of 1 percent. The margin will be used to meet IMF administrative expenses in connection with operations of the facility.

PARTICIPATION IN AND COMMITMENTS TO IMF SUPPLEMENTARY FINANCING FACILITY

	SDR (million)	Approximate dollar equivalent ¹ (million)	As per cent of total
Industrial countries:			
Belgium.....	150	183	1.7
Canada.....	200	244	2.3
Germany.....	1,050	1,282	12.2
Japan.....	900	1,099	10.5
Netherlands.....	100	122	1.2
Switzerland.....	650	794	7.6
United States.....	1,450	1,770	16.8
Subtotal.....	4,500	5,494	52.3
Oil exporting countries:			
Iran.....	685	836	8.0
Qatar.....	100	122	1.2
Saudi Arabia.....	2,048	2,500	23.9
Venezuela.....	500	610	5.7
United Arab Emirates.....	150	183	1.7
Kuwait.....	400	488	4.6
Nigeria.....	220	269	2.6
Subtotal.....	4,103	5,008	47.7
Total.....	8,603	10,502	100.0

¹ At dollar per SDR rate of \$1.22 (the rate for Mar. 15, 1978).

TABLE 2.—RELATIONSHIPS BETWEEN DRAWINGS ON SUPPLEMENTARY FINANCING AND IMF CREDIT TRANCHES
(Percent of quota)

Drawings on credit tranches	Parallel drawings available from supplementary financing facility	
	Before amendment of IMF articles	After amend- ment of IMF articles
First credit tranche.....		12.5
Second credit tranche.....	34	30.0
Third credit tranche.....	34	30.0
Fourth credit tranche.....	34	30.0
Total.....	102	102.5

Explanatory note: As part of the Jamaica agreement on monetary reform in January 1976, countries' potential access to the credit tranches was temporarily expanded by 45 percent, so that each credit tranche is temporarily equal to 36.25 percent of quota. This expansion will lapse when the amendments to the IMF Articles of Agreement now in process of ratification take effect, and each credit tranche will then revert to 25 percent of quota. As long as this temporary expansion is in effect, drawings of supplementary financing will be available only in connection with drawings on the upper credit tranches, and in an amount equivalent to 34 percent of quota in conjunction with drawings on each of the second, third, and fourth credit tranches. After the temporary expansion in credit tranches lapses, drawings of supplementary financing will be permitted in conjunction with drawings on the first credit tranche, in an amount not to exceed 12½ percent of quota, and drawings of the equivalent of 30 percent of quota will be permitted in conjunction with drawings on each of the three upper credit tranches. No drawings of supplementary financing will be permitted unless a country has agreed with the IMF on a program extending into the upper credit tranches. The amounts available in conjunction with drawings on the upper credit tranches will be subject to review by the fund from time to time, and may be modified in light of the relative availability of supplementary financing and regular IMF resources.

[Mr. Young submitted the following questions for the record. The responses were provided by the Department of the Treasury.]

Question No. 1: Since Uganda, Vietnam, Laos, and Cambodia are all members of the IMF, can we expect that they will be drawing from this facility?

Answer: Any member of the IMF which qualifies on the basis of balance of payments need and willingness to adopt the appropriate stabilization measures in conjunction with an IMF borrowing arrangement would be eligible to draw under this Facility. It is not possible at this time to predict which particular countries would be drawing from the Facility.

Question No. 2: Will there be any considerations at all to the social conditions within the countries in question or is the IMF closing its eyes to the human rights situation in these countries?

Answer: Countries seeking IMF financing are by definition in balance of payments difficulty. They need to stabilize their economies and adjust their payments positions—thereby restoring their ability to attract capital. Without IMF assistance, countries may feel compelled to impose additional economic restrictions—protectionist trade measures, exchange controls, excessive domestic inflation—which can impose harsh burdens on the poor. In contrast, a country seeking to correct its problems with the help of IMF financing designs, in cooperation with the Fund, a stabilization program that is both suited to the borrower's own circumstances and consistent with its obligations to follow internationally responsible policies. In cooperation with the IMF, countries can establish the economic stability that is necessary to sustainable growth and improved living conditions for all its citizens. The effect and purpose of IMF programs is to help create the economic conditions in which the well-being of the citizens of member countries can be improved, and their basic human needs better fulfilled rather than deprived.

Question No. 3: The balance of payments problem for many of these countries is linked to their own internal domestic economic system. How can you separate the human rights factor, which is a part of this internal economic system, from purely economic considerations.

Answer: We believe that the IMF, by promoting a sound, open and growing world economy, makes a very valuable contribution toward a world economic environment that is supportive of U.S. human rights and human needs objectives. However, IMF programs are directed toward broad macroeconomic objectives which will help to ensure that the problem causing the need for IMF financing is corrected, and not to countries' policies with respect to human rights. It would be beyond the IMF's charter and capabilities for it to attempt to become involved in the social and political policies of its members, and such an effort would be damaging to the IMF's economic purposes and objectives.

Question No. 4: In his testimony on behalf of this facility before the House Banking Subcommittee on International Trade, Investment and Monetary Policy, Arthur Burns stated:

"It is not possible to state precisely how large an addition to the IMF's financial resources will be required to deal adequately with external financing problems over the next several years, or how much of the amount potentially available under the Witteveen Facility will actually be needed."

It seems to me that you are committing the United States to an endeavor which could prove to be more costly and in fact could actually be ineffective in addressing the balance of payments problem. Would you care to comment on Dr. Burns' statement?

Answer: I would agree with Dr. Burns that it is not possible to state precisely what the requirements for additional IMF resources over the next few years will be. One cannot predict with certainty just what the demand for IMF financing will be during this period. Drawings on the Fund during the last three years (1975-1977) totalled more than \$17 billion, and the potential demands on Fund resources during the next few years are even larger. The \$10 billion committed under the Witteveen Facility is needed to help enable the Fund to meet those demands. It is vital that the IMF have—and be known to have—adequate resources in reserve to meet whatever urgent problems may arise, even if it turns out that less than the full amount is actually drawn.

The only cost to the U.S. that could result from U.S. participation in the Facility would be related to exchange rate changes. An exchange valuation loss to the U.S. would occur if the dollar were to appreciate in terms of the SDR—the unit in which our claims with the IMF are denominated—over the period of U.S.

participation in the Facility. In this event, the U.S. could receive in repayment fewer dollars than it had transferred to the IMF. Appropriation of a \$200 million contingency reserve to meet such losses is included in the President's proposed FY 1978 Supplemental. There will be no interest cost to the Treasury from U.S. transactions under the Facility. The IMF will pay interest to the U.S. at rates slightly above those paid on Treasury securities of comparable maturity (the rate of interest paid by the IMF will be adjusted periodically to reflect changes in market rates).

The potential benefits to the United States from our participation in the Witteveen Facility far outweigh any costs which we might incur. The U.S. economy depends heavily on, and benefits greatly from, the international monetary system, which provides the framework for world trade and financial flows. A great deal of U.S. economic activity, in a wide variety of products, depends on export markets overseas. For example, our exports account for on the order of one-sixth of manufacturing jobs and nearly one-third of farm acreage and the dollar is the principal currency in the international monetary system.

The international monetary system is currently under serious strain. Payments imbalances among nations are large, and there is a danger that, without adequate balance of payments financing, countries will be forced to take excessively harsh and restrictive measures which could harm the U.S. Confidence in the system is low and growth policies are hesitant. The Witteveen Facility is designed to *reinforce* and *promote confidence* in the system by temporarily increasing the resources of the International Monetary Fund, our principal instrument for assuring a stable and smoothly functioning monetary system. *By strengthening the IMF—and thus strengthening the monetary system and the world economy—the Witteveen Facility will help assure a sound, growing U.S. economy and a stable dollar.*

Question No. 5: How long can we expect the oil-producing countries to run a surplus? So we can expect this problem to exist at least that long?

Answer: There continues to be a great deal of uncertainty regarding the major factors that will bear on the OPEC payments outlook. In broad terms, over the next few years increased oil supplies from non-OPEC sources, primarily the North Sea and Alaska, will result in relatively flat demand for OPEC oil. Assuming that the price of oil does not increase in real terms during this period, the aggregate OPEC surplus is expected to continue, but probably at gradually diminishing levels as OPEC imports of goods and services continue to expand. Over the longer run, however, as the growth in non-OPEC oil supplies slows, the role of conservation and development of non-oil energy sources by oil importing nations such as the U.S. will become critical factors in determining whether the OPEC current account surplus will return to previously high levels.

Question No. 6: Isn't this facility going to add to the total debt of these countries and in fact compound the problem or at least postpone the day of reckoning?

Answer: The policy conditions that will be associated with the provision of financing by the Facility will be designed to help countries correct their balance of payments difficulties and *reduce* their financing needs, not add to those needs. By promoting internationally appropriate adjustment policies on the part of countries experiencing severe payment difficulties, while providing temporary balance of payments financing during the transition while these policies take effect, the Witteveen Facility will help *correct*—not compound—the problems now facing the international financial system. By helping to improve the creditworthiness of those countries adopting adjustment programs, the Facility will strengthen the international monetary system to the benefit of all participants in this system, including the United States.

Question No. 7: If the major feature of this facility is the adjustment policies which the IMF will force these countries to undertake, rather than adding to their debt, why aren't we insisting that they take these corrective measures before they can receive any financing from the IMF?

Answer: Financing provided under this Facility will be made available *only* in conjunction with the adoption by the borrowing member of a stabilization program designed to correct the member's payments problems and enable it to repay the loan.

Financing authorized by a borrowing agreement under this Facility will not be made available all at once, but will be phased over a period of two to three years, during which time the IMF will monitor the member's performance under the borrowing agreement.

Question No. 8: Just exactly what are these adjustment policies you want these countries to undertake?

Answer: The conditions of the IMF programs, which are developed in a process of discussion and negotiation between the Fund and the borrowing member, are usually related to broad macroeconomic objectives: such things as the size of the public sector deficit, the growth in monetary aggregates, the current account deficit, the level and maturity of external borrowing, exchange rate policies, and trade and payments policies. In certain cases, where governmental programs, e.g., subsidies on imported goods, have seriously distorted the economy and have had important balance of payment costs, IMF programs have, by agreement with the government, included criteria related to changes in such programs. IMF programs are designed to ensure that the problem causing the need for IMF financing is corrected, in an internationally responsible manner.

Question No. 9: The United States has a veto power in the IMF, is that correct? Does this veto apply to loan approvals for an individual country?

Answer: The basic rule in the IMF's Articles of Agreement is that decisions of the Fund are taken by a majority of the votes cast. When this basic rule applies, as it does in decisions on financing to individual countries, the United States does not have a veto power.

There are, however, decisions in the Fund which are taken by a special majority, i.e., a majority other than a majority of the votes cast. Under the present Articles, these special majorities include absolute majority, two-thirds, three-fourths, four-fifths and eighty-five percent of the total voting power, as well as a unanimous vote. Decisions of an important policy character—such as an increase in IMF quotas—generally require a majority vote of four-fifths (or more) of total voting power, which means that the U.S. has a veto power on such decisions.

The United States quota in the IMF is SDR 6,700 million, providing for 67,250 votes, or 22.66 percent of total voting power. Under the Sixth Quota Review—expected to take effect shortly—the U.S. quota will increase to SDR 8,405 million and our total votes in the IMF to 84,300. Our share of total voting power will decrease to 19.87 percent. Concomitant with this decrease, however, the special majority required for decisions of major policy importance has been raised under the Second Amendment to eighty-five percent of total voting power, preserving our veto power on such decisions.

Question No. 10: This facility is considered essential for the short term problem, but for the long term you would expect permanent increases in the IMF quota structure. Is that correct? So in effect, this is not a one shot deal, we are going to be addressing this specific problem for some time to come?

Answer: It is correct that the Witteveen Facility is designed to provide temporary additional financing to the IMF during the next two-to-three years, and that, over time, increases in the IMF quota structure should be anticipated in order to enable it to meet future balance of payments financing requirements. The Facility is designed to reinforce the IMF's ability to meet world balance of payments financing needs and promote economic stabilization by member countries in a period of extraordinary imbalances, in the process strengthening and promoting confidence in the international monetary system.

The Facility *cannot*, however, eliminate the imbalance between the OPEC surplus countries and the oil importing world. This can come about only through effective programs by the U.S. and others to conserve energy and develop alternative energy supplies, and through continued growth in the capacity of oil exporting nations to absorb goods and services produced in the oil importing world. The Administration's energy program is a major step in the direction of reduced U.S. dependence on imported energy.

Question No. 11: Why is this not a bail-out for private banks?

Answer: The Witteveen Facility will not "bail-out" either countries or banks. It is not for the purpose of paying off old debts—to banks or otherwise. Rather it is to encourage countries which currently face large balance-of-payments deficits—resulting from domestic economic distortion, excessive imports, or other factors—to adopt sound adjustment measures. Without adequate official financing to cover the transition period while these adjustment measures take effect, there is a danger that countries will feel it necessary to deal with these deficits by excessive deflation or imposing protectionist measures—steps which would be harmful to the U.S.

Typically, IMF financing does not cover a country's full balance-of-payments requirements but some lesser amount. Thus a country must expect to meet the uncovered portion from other sources—further private borrowing, use of reserves, and other sources. IMF financing agreements help to improve confidence in a borrowing country's prospects—which helps to keep private funds flowing.

Past experience with IMF credits demonstrates clearly that lending from private banks tends to increase after a stand-by arrangement is reached with the Fund rather than declining. In the period 1970-75, the IMF negotiated stand-by agreements providing about \$2.1 billion. After these agreements were signed, net lending by the private market in the 35 countries involved increased by nearly \$9.6 billion during the period covered by the agreements.

The Facility will strengthen the international monetary system by improving the creditworthiness of those countries adopting adjustment programs. Indirectly, this strengthening of the system benefits all participants in the international economy—including American industry, workers, farmers, and consumers as well as banks.

Question No. 12: Under Secretary Solomon testifying before the Banking Subcommittee, stated that there are a few countries that have reached the limits, or are close to reaching the limits, of prudent borrowing from the private banks. My question is, that if you have countries who are currently in such a severe deficit situation that they no longer have access to private lending markets, not to mention official lending markets. If they do not have this additional facility or access to this additional facility, they are precluded from additional private financing. They will not be able to meet their current debt obligations, some of which are to private financial institutions. They would then be in a default situation, would they not?

Answer: Such countries would certainly be in serious difficulty, but default would not be the only, nor necessarily the most likely, alternative open to them. Countries that are approaching the limits of their ability to borrow in private markets must be assured of adequate financing while they implement adjustment measures and until these measures begin to have an effect. Without adequate financing, such countries could be compelled to implement unduly restrictive domestic economic measures, protectionist trade and capital restrictions, or aggressive exchange rate practices in order to reduce sharply their financing needs. Such measures could have serious implications for the world economy in general as well as adverse consequences for the economy of the country introducing them. To defend against this danger, and to promote orderly and internationally responsible adjustment, adequate official balance of payments financing must be available to supplement other sources of financing during the transition while adjustment takes effect. I should emphasize that there are only one or two countries which are actually approaching a default situation. The purpose of the proposed facility is to encourage countries to adjust before their creditworthiness in private markets runs out.

Question No. 13: Mr. Secretary, you have said the U.S. would be able to draw on the Witteveen Facility upon a showing of need. Would this not require the U.S. to show a need for financing in excess of its existing quota?

Answer: Yes. In order to draw from the Witteveen Facility, the U.S., like any other IMF member, would have to meet the criteria for eligibility, among which is the requirement that its financing need from the Fund "exceeds the amount available to it in the four credit tranches." (Credit tranche access currently equals 145 percent of quota, but will revert to 100 percent of quota shortly when the quota increase agreed under the Sixth General Review takes effect). In the event of a balance of payments need, however, the U.S. could request immediate encashment of its claims on the IMF arising from its participation in the Facility before contemplating borrowing from the Facility.

Question No. 14: Would we not have to go through our credit tranches before drawing on the Facility? Is this the sort of event—a draw by the U.S.—that was contemplated when the Facility was negotiated?

Answer: There is no requirement that a member drawing on the Facility must have already utilized its access to IMF financing under the regular credit tranches. It is, in fact, anticipated that eligible members will draw on the Facility in conjunction with drawings on the credit tranches.

A drawing by the U.S. was not contemplated, but the U.S. would, of course, be eligible to draw if it met the criteria, as would any IMF member.

Question No. 15: Mr. Secretary, on page 3 of your statement you state that the Facility "will encourage nations in difficulty to take the kind of stabilization measures that are in keeping with a liberal and open international trade and payments system."

Is the OPEC cartel "in keeping with a liberal and open international trade and payments system?"

Answer: The OPEC cartel is clearly not in keeping with a liberal and open international trade and payments system. Its existence and market power must be viewed, however, in terms of the nature of the demand for oil, particularly its low price elasticity, and the greatly increased dependence of the oil importing countries on a limited number of oil exporting producers. The appropriate response to this situation by oil importing nations, which is embodied in the Administration's energy program now before Congress, is to reduce dependence on foreign oil through conservation, increased domestic oil production, and development of alternative energy supplies.

It is particularly important that, while such measures are being taken, we ensure that adequate official balance of payments financing be available to countries experiencing payments difficulties. Without such financing, countries could be forced to take excessively harsh and restrictive measures which would erode the liberal trade and payments system which is of vital importance to U.S. economic prosperity. The Witteveen Facility is aimed at helping to assure that such financing is available.

Question No. 16: Should we not address the problem of OPEC and press the cartel to adjust rather than ask the rest of the world to adjust to the cartel?

Answer: The United States has concluded an extensive and continuing dialogue with the key oil exporting countries—both multilaterally with other consuming countries and bilaterally—ever since the abrupt increases in the price of oil in late 1973, early 1974. At the Washington Energy Conference in early 1974, representatives of the major consuming countries met to discuss the oil price situation, leading to establishment of the International Energy Agency. The multilateral part of the dialogue continued in Paris over a two-year period in the Conference on International Economic Cooperation, and we had numerous bilateral consultations with oil exporting countries.

In this dialogue, we have attempted continuously to make clear the consequences of actions taken by the cartel as well as the implications of actions they were considering, such as price increases. In the CIEC, for example, we believe that we were successful in convincing the OPEC that their actions had played a major role both in depressing demand in the industrial countries and in increasing inflationary pressures. Similarly, meeting recently in Caracas, the major exporting nations were successful in preventing an OPEC decision on further increases in the price of oil. Continued success in these efforts, however, will depend on our ability to limit our own demand for energy imports, which underlines the importance of the comprehensive energy legislation now before the Congress.

Question No. 17: Would our exports not benefit immensely if we could reduce the price of oil and free those funds to purchase our exports rather than OPEC oil?

Answer: There is no question but that the high price of oil has had a depressing effect on the world economy. Real growth is significantly below what it would have been in the absence of the oil price shock, which forced countries to devote a major portion of their foreign exchange earnings to the purchase of OPEC oil. Furthermore, growth in many countries is significantly below that of the U.S., which further limits our exports to them.

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