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# FOREIGN OPERATIONS APPROPRIATIONS FOR 1962

GOVERNMENT

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## HEARINGS

BEFORE THE

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS

FIRST SESSION



SUBCOMMITTEE ON FOREIGN OPERATIONS APPROPRIATIONS

OTTO E. PASSMAN, Louisiana, *Chairman*

J. VAUGHAN GARY, Virginia

JOHN J. ROONEY, New York

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

### PART 1

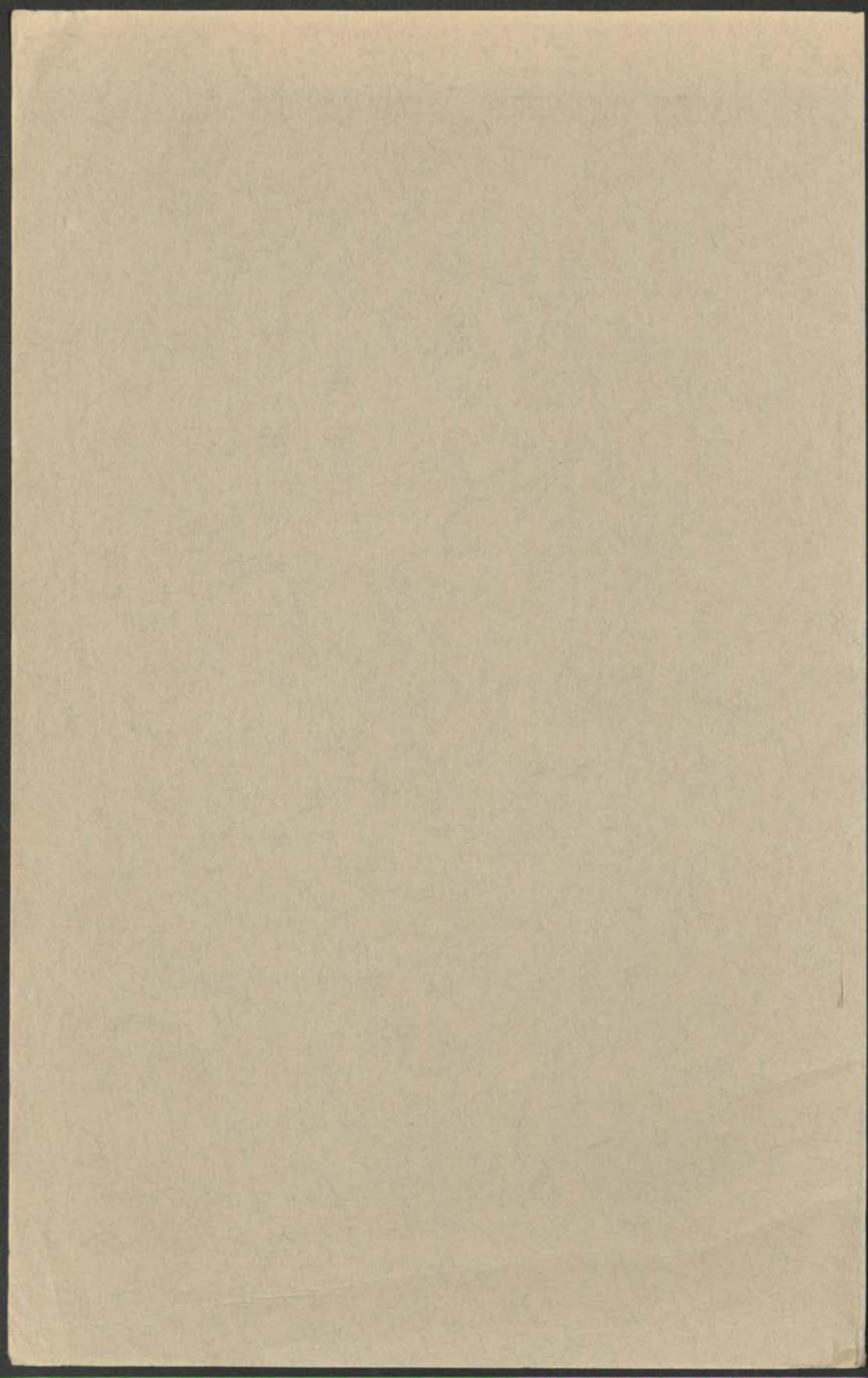
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### HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH CONGRESS  
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### PART 1

### Overall General Statements

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WASHINGTON : 1961



HEARINGS

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## FOREIGN OPERATIONS APPROPRIATIONS FOR 1962

THURSDAY, JUNE 29, 1961.

### STATEMENT OF THE SECRETARY OF STATE

#### WITNESSES

HON. DEAN RUSK, SECRETARY OF STATE  
HON. JOHN O. BELL, DEPUTY COORDINATOR FOR FOREIGN ASSISTANCE, DEPARTMENT OF STATE  
WILLIAM P. BUNDY, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS  
SEYMOUR J. RUBIN, PRESIDENT'S TASK FORCE ON FOREIGN ECONOMIC ASSISTANCE, DEPARTMENT OF STATE  
M. RICHARD BARNEBEY, PRESENTATIONS OFFICER, DEPARTMENT OF STATE  
JOHN R. MOSSLER, DIRECTOR, BUDGET DIVISION, INTERNATIONAL COOPERATION ADMINISTRATION  
BROOKS HAYS, ASSISTANT SECRETARY OF STATE FOR CONGRESSIONAL RELATIONS, DEPARTMENT OF STATE

Mr. PASSMAN. The committee will come to order.

We have with us this morning the distinguished Secretary of State, the Honorable Dean Rusk, and also our former colleague, the Assistant Secretary of State for Congressional Relations, the Honorable Brooks Hays, and other distinguished witnesses.

We are happy to have you with us, gentlemen.

Before we hear the Secretary, I should like to make this comment:

It has been the policy of this committee for many years to receive 24 hours in advance of the hearing the prepared statements of our witnesses. I feel sure some of the witnesses from the State Department are familiar with that practice. When we receive the statements maybe an hour before the hearings, it does not give the members sufficient time to study the presentations and prepare properly for discussion and questioning.

Therefore, if you will, please pass the word along to the other departments and ask them, if they can, to submit their prepared statements to the committee 24 hours prior to the hearings.

It is impossible for us to prepare adequately for our examination unless we have these statements in advance.

Mr. Secretary, do you have a statement to make to the subcommittee?

## PREPARED STATEMENT

Secretary RUSK. Yes, Mr. Chairman.

Copies of the statement came down last evening, but I believe they were upstairs. I am sorry they were not here the first thing this morning.

Mr. PASSMAN. We understand, and we did not particularly refer to your statement, but I thought this was an appropriate time to restate the policy of the committee.

Secretary Rusk. Thank you, Mr. Chairman and members of the committee.

Mr. GARY. Excuse me.

As I understand it, that is the policy of the full committee as well as this subcommittee.

Mr. PASSMAN. That is correct.

Mr. GARY. It applies to all of the subcommittees.

Secretary RUSK. We shall comply, Mr. Chairman.

Mr. Chairman, members of the committee, I welcome this first opportunity to meet with you, and to discuss with you the appropriations which are being requested for our foreign-aid program. The appropriation requests which are now before you are central to our entire foreign policy.

At times we all have the feeling that our foreign relations are a series of crises. There are, of course, always pressing events with which we must deal promptly. However, the broad stream of our foreign policy must necessarily be planned and directed long in advance. Our economic and military assistance programs are very much a part of our longer term planning. What we do now will largely determine whether the future will be relatively stable or dangerously chaotic.

It is a truism that we are living in an era of great transition. Beneath the eddies of daily crises there is the swell of change. We stand on the threshold of a new and turbulent era.

Such a world involves many uncertainties and some grave dangers.

It is sobering indeed to consider the hazards which an expanding nuclear age brings to mankind. We must be daily conscious of the relentless pressure of imperialist communism against all nations and peoples still free from its control. We must understand the meaning of the great revolution of rising expectations and of progress in the less developed nations of the world. We must work with the newly independent nations—40 since the end of the war, 19 in the last year alone—as well as with our staunch and traditional allies.

The President has recently described the southern half of the globe as the battleground of freedom. Here peoples, most of whom have only just obtained nationhood, are hearing about the possibility of progress. They believe it is possible for them and they are determined to have it. They will no longer accept as a fact of nature the poverty, ignorance, and misery in which they have lived. They are determined to have for themselves and for their children enough food, decent housing, the benefits of their own farming, an opportunity for education, the essentials of health, and government which represents their interests.

They are determined to have this progress and they will do the things they believe are necessary to attain it and they will seek help from the industrialized nations able and willing to provide it. This revolution of progress is indeed the great tide in the affairs of men today. The great question of our era is whether these awakening peoples can carry out that revolution in freedom.

It should be engraved on the minds of all of us that the goal of the Communist nations is to capture that revolution and to subvert it to Communist ends. This objective is being pursued with rising intensity. No one who has studied Mr. Khrushchev's major speech of January 6 or his speech of a few days ago can have any doubt about it. Those who heard him talk in Vienna about the world he hopes to achieve have no doubt about it. No one who heard the President's report to the Nation upon his return from Vienna should fail to understand the objectives of Communist strategy and the seriousness of the struggle in which we and other free peoples are engaged. And this understanding should be coupled with the knowledge that the Soviet Union has grown since the end of World War II—and is still growing—in economic, technical, and military strength.

If this is the Communist objective, what is ours? It is a world of human dignity, peace, and freedom. It is a world of continuing progress—of progress for man, and not for the state. We seek not a static but a dynamic peace, in which all peoples will have the opportunity to achieve just and needed change.

The purpose which we hold for ourselves and all others is a world of free choice in which the people of each nation may work out their destinies in their own ways, faithful to their own traditions and progressing according to their own genius. We have no desire or intention to make the world over in our own image. But we are determined that the world shall not be made over in the image of any dogmatic creed which denies human dignity.

Our aid program reflects that determination. To achieve our own aims, we must join with the other developed nations to make it possible for the peoples of Latin America, Asia, and Africa who are determined, to succeed in their own efforts to develop their own societies through economic growth, social justice and free institutions. This is not a burden but an opportunity—the opportunity to join in leading a movement for progress in freedom. Not to seize this opportunity will be to open to the Communists an opportunity which they could not otherwise gain for themselves—the opportunity of seizing this great revolution of progress, directing it to their own ends and making it the instrument of their own limitless imperialist ambition. We cannot let this happen.

All of us are at times disturbed by the feeling that our aid efforts have not accomplished all that we had hoped for them. I have certainly had this feeling myself. I think though that we may have expected too much too quickly from this program. We may indeed have been tempted to oversell it, to have promised too much in annual requests for authorizations and funds for programs which have required time and patience and persistence. We may have underestimated in the past the magnitude of the forces for change among which we have been working since the end of World War II. Perhaps also we have not been willing to recognize fully the vigor of the growth of

those who oppose our way of life. While we should not accept setbacks complacently, we should maintain our perspective. In the past 15 years, if we have not accomplished all we had hoped, we have nevertheless achieved a great deal. Certainly our economic aid made possible the recovery of the nations of Western Europe. They now stand beside us as military allies and as participants in the effort to assist the progress of the less developed areas. Our aid made it possible for Greece and Turkey to maintain their independence against severe pressures. The struggle has spread to other areas where our help is essential for national survival.

The cost to us of our accomplishments has been approximately 1.5 percent of our gross national product over these years. It has been money necessarily spent, and most of it has been well spent. We must look, however, to the past for lessons as to how we may improve the effectiveness of our efforts in the future.

The President has brought into the administration a number of people with a variety of personal experience in the difficult task of working with the development of new nations. These men have joined with those who have been wrestling with the problem over the last decade to draw upon their combined experience and wisdom to plan for the period ahead. We are now sitting with the Congress to review the lessons of the past and to discuss these plans for the future.

#### SECRETARY'S CONCLUSIONS OF FUTURE NEEDS

I am deeply appreciative of the fact that each of you has had years of experience in developing our aid programs, some of you from its earliest origins. Each of you will have your own conclusions as to the lessons of the past and the guidance they give for the future. My own conclusions come from my observations both within and outside the Government and from my intensive examination of the problem in recent months. I have stated them to the Foreign Affairs Committee and I should like to lay them before you.

First, we need simplicity—in legislation and in administration. We need authority to move promptly. That authority should be in the hands of responsible and identifiable individuals, not in faceless committees or a diffused bureaucracy in the executive branch. The ability to make prompt decisions affects our capacity to enlist the help of others—governments, international bodies, and private institutions and agencies. Many countries receiving aid need help with good public administration; one way to teach it is to practice it. And we must not forget that diffused responsibility breeds delay, and that delayed decisions are often more expensive than timely ones.

Second, short-term financing, hazardous and uneven, makes it difficult for us and those we are trying to help to plan ahead for the efficient use of both our and their resources. Economic and social development takes time, although the rate of improvement can be rapid. Realistic development requires that first things be done first—such first things as the preparation of talent, the building of essential administration, provision for basic public services, and the enlistment of the interest and energies of an entire people. Short-term plans tend to emphasize the dramatic over the basic, the facade over the foundations.

Third, the critical bottleneck in development is in the skills and talents of people. This is especially true of assistance provided by one country to another. It is true on both sides. We cannot draft skills and talents. We staff our own public and private aid programs through voluntary recruitment. It has to be said that there is a serious shortage of men and women who combine the highest professional qualifications with a willingness to serve in distant and often difficult parts of the world. We can be grateful for the gallant and dedicated service which those in our aid programs have rendered, but the search both for talent and improvement is never ending and must be a central preoccupation of our efforts.

Fourth, the burden of assistance is not one which we can or need carry alone. What we do can now be joined with the efforts of others, in a serious undertaking to help the lesser developed peoples to move economically and socially into the modern world. Other free and advanced nations are ready to help. International organizations can multiply our resources and add to the talent of which we are in short supply. A great variety of private and voluntary agencies in our own and other countries is playing a most significant role. And we can look toward increased participation. Countries receiving aid will discover that they can help each other in regional cooperation. Stimulating opportunities for multiplying the effort can be found through imaginative and flexible administration.

Fifth, there are conditions which should be met before the commitment of our resources to foreign aid. Our own interest, as well as our hopes for a better world, lead us to lend our assistance to others. It is essential that we do so without the "strings" which offend or impair the freedom of others. But we do believe that our investments should be good investments, that we should be given something to support, and that honest and diligent administration is indispensable if outside help is to be productive. Self-help must be our principal "string" and an insistent one.

Sixth, economic and social development can occur only through advance on a broad front—in education, health, economic productivity, and good administration. Attempts to advance a narrow sector alone are likely to fail. Development requires an entire people to be on the move—interested, alerted, energetic, and self-reliant. National development cannot be imported; it can come only from within. Outside help can stimulate and encourage, and can fill critical gaps, but only a people inspired by their own leaders can develop themselves.

Finally, the mood and spirit of our aid are relevant to its success. We should seek performance, not gratitude, because the yield in friendship is more enduring if it is not extorted. If we have something to teach, we have much to learn. Our objectives in foreign aid will not be won by quick, flamboyant successes but in quiet and persistent effort, applied in complex and unfamiliar situations, as we help others to achieve a larger share of the common aspirations of man.

#### NEW PROPOSALS FOR ECONOMIC ASSISTANCE

In order to draw up a new program for economic assistance in the light of these and other considerations the President designated Mr. Henry Labouisse, the Director of the International Cooperation Administration, to head a task force for this purpose. Mr. Labouisse's

principal associate is your former colleague, Mr. Frank Coffin, who is now Manager of the Development Loan Fund and who has had principal responsibility for the preparation of the economic aid program. Mr. George Gant, former General Manager of the Tennessee Valley Authority, and now a prominent official of the Ford Foundation and an expert on management, has worked with these gentlemen in organizing the new administration which it is intended will execute the aid program. These gentlemen will be before you with others to discuss the new program and its administrative arrangements in detail. However, inasmuch as the whole purpose of the program is to achieve foreign policy goals of the United States, I should like to discuss with you the principal new proposals involved in it:

#### UNIFIED ADMINISTRATION

You on this committee perhaps know better than anyone else the importance and the difficulties of the administration of this program. We too, are concerned about it. We have concentrated first on trying to develop a plan of administration which will be best calculated to achieve good results with prompt action to eliminating unnecessary costs of overhead.

We believe that the experience of past years has shown three major needs: unified administration, clear reflection of policy, and the most talented and capable administrators we can find. The establishment of the Development Loan Fund to provide loans for development was a major step forward. However, a separate agency for this purpose does not make for the most economical and effective use of our resources. We propose therefore to bring together in a single agency the functions now served by both the International Cooperation Administration and the Development Loan Fund. Opportunities have been missed in the sales of surplus commodities under Public Law 480 to achieve maximum benefit for development programs. For this reason, we propose also to bring the food-for-peace program under the general direction of the new agency.

The reason for existence of the economic development program is to serve the policy objectives of our Government. In order to provide closer integration with policy consideration we intend that the new agency be in the Department of State and be headed by an administrator who will rank as an Under Secretary of State and who will report directly to the Secretary of State and to the President. Central direction and responsibility for the program will be fixed in this administrator.

You know from your repeated examinations of this program that its administration is complex. It requires the most capable administrators and the most skilled technicians. The operating agencies have in the past tried to employ such people but it must be said frankly that this has not always been possible. We hope that the recognition of the great objectives of the program and its establishment on the 5-year basis requested by the President will facilitate recruiting the kind of people we must have.

#### COUNTRY PLANNING

We intend to form the internal organization of the new agency on geographic lines. We will place in charge of each geographic area an

assistant administrator of the rank of an Assistant Secretary of State. He will be responsible for developing, in close association with the Assistant Secretary for that area, aid plans which will most directly serve the development needs of our foreign policy objectives for the countries we help.

There is reason to suppose that in the past our aid has been directed too frequently to short-term objectives, and fallen short of what we might have hoped for it. To make the most economic and effective use of the limited men, money, and resources available, it is important to develop and follow in each country a carefully thought out system of priorities and, where possible, a plan for long-term development. This approach will support our foreign policy goals most effectively and it will be central to the administration of the new program.

I have briefly described the struggle of the free nations for progress. This struggle, to succeed, must be continued resolutely over a period of time. It must be approached by the developing countries themselves on a long-term basis. They have limited resources and they must lay their plans and determine their priorities to use these limited resources in the most effective manner. Where our help is essential, they cannot make their own plans with any confidence unless they have reasonable assurance of our assistance over a period of some years. In order that our aid administrators may give these assurances it is necessary that we shall have decided as a nation what we intend to do to encourage and assist the development process over a reasonable period ahead. We must stop trying to live from crisis to crisis and plan to build in a way which we may reasonably hope may forestall crises.

The essence, therefore, of an effective program for long-term development in the decade ahead is the power to make firm commitments for such development.

#### FIVE-YEAR BORROWING AUTHORITY REQUESTED

For this reason the President has asked the Congress to grant him this authority by enabling him to borrow from the Treasury over a 5-year period funds for such purposes in amounts equal to a minimum appraisal of the need.

I recognize that this proposal is of direct interest to this committee. I know it is said that its purpose is to avoid coming to this committee for funds for economic assistance. This is not its purpose. It is proposed because those who have had, and now have, responsibility for the conduct of our foreign relations have believed that in this era the authority to make long-term commitments to development is essential to the effective conduct of those relations. President Eisenhower, Secretary Dulles, Secretary Herter, Under Secretary Dillon, and now President Kennedy and I have repeatedly declared the importance of having an assurance for a reasonable period of the funds which will be available for long-term economic development.

The purpose of the proposal is to make it possible to relieve the development process from the difficulty of working under the uncertainties of annual funding—whether this be by either authorizing or appropriation action or both. What is needed now is a commitment by the Congress, on its own authority, of U.S. participation in the process

of development for a realistic period. We believe that 5 years is such a period. This action will announce a national policy of the greatest significance. Although it will be known that future action of the Congress can limit or end this policy, the developing nations will be able to act under the presumption that it will continue unless the Congress decides otherwise and they will feel safe in the conviction that the Congress, once having asserted its policy, will not lightly reverse it.

I know that this proposal raises in the mind of many members a question of congressional control. We are not asking for a reduction of that control in any respect except the single essential of establishing a congressional policy that a specific amount of funds will be available for a stated period unless reasons of sufficient consequence arise to curtail or revoke them.

Within this single premise, the statute does everything reasonably possible to preserve to the Congress effective control. It does not make the funds available all at once but only by annual increments. Criteria are established for their use. Quarterly reports are to be made. Standards for loans will be set by an interagency loan committee. There will be an annual presentation of aid legislation to both the authorizing and the appropriating committees during which all development lending operations will be reviewed. The Congress would not only have the opportunity to change the lending criteria and other provisions covering loans but also to curtail or even to end the borrowing authority or any part of it. The lending operations are made specifically subject to the provisions of the Government Corporations Control Act under which the President must submit to the appropriations committees an annual budget for lending operations. Under this provision this committee, if it finds it necessary to do so, may recommend the inclusion in the foreign aid bill in any year of a limitation on lending operations as well as on administrative expenses.

You will recall that 4 years ago President Eisenhower, Secretary Dulles, and then Under Secretary Herter urged the provision of long-term commitment authority for the Development Loan Fund. At that time it was intended that the DLF should make loans repayable in soft currencies. Repayments under the new program are to be only in dollars and only upon a finding of reasonable, if long-term, prospects of repayment. Such funding we believe will meet the test of full fiscal responsibility.

Let me say finally that this authority is asked because its absence leaves the process of long-term development without a vital ingredient—assurance of long-term help from the United States. Its provision by the decision of the Congress for a 5-year period will be a landmark in U.S. foreign policy. We hope this need will have your understanding and your support.

I will say frankly that it is difficult to determine precisely what funds will be needed for development assistance. We all know that the potential needs of the developing countries are very great indeed. The real question is whether their governments and people can organize themselves to undertake the necessary development at a rate which is necessary to meet the legitimate demands and aspirations of their peoples. The question is also how well we may organize our own administration for the very difficult task of working out with these nations projects and programs which will promote their progress and which can be carried out effectively.

We believe that the developing nations and we ourselves can use wisely and effectively the funds for which the President has asked. If the funds are so used, productive development programs will grow. We need to have these resources to assist in that growth. In making these resources available, we will be fulfilling the kind of function that a sound bank does in a growing domestic community.

#### RELENDING OF LOAN REPAYMENTS

Over the years a portion of the aid which we have made available to European nations has been in the form of loans. These loans are now being repaid. We are also receiving repayments of a portion of the assistance we provided to defeated Germany and Japan as occupied areas. These repayments—principal and interest—will amount to an estimated \$287 million in fiscal year 1962 and to an annual average of \$300 million over the next 5 years. The President is asking authority to reuse these repayments for further lending for development.

#### GRANT AID

In addition to the funds the President asks for long-term development loans, the request before you includes appropriations of \$1,690,500,000 for grant assistance. This total is the sum of amounts asked for individual categories of assistance. These are new categories, intended to describe more accurately the purposes for which the funds requested are to be used. These categories and the need for funds under each of them will be discussed with you at length by Mr. Labouisse, Mr. Coffin, and others. However, I should like to mention several of them briefly.

#### DEVELOPMENT GRANTS (\$380 MILLION)

The long-term development which I have discussed thus far must be directed toward creating the basic economy needed to make increasing standards of living possible. This is essential, yet it is by no means enough. We will have failed in our major purpose if conditions are not developed concurrently which will make the benefits of such growth fairly available to all of the people in the developing countries. Such a program of aid to social progress has been authorized by the Congress for Latin America. Your committee has held full hearings on this program and has recommended the needed funds.

I would like to say to you that your action has provided a dramatic symbol of the determination of the United States to help the nations of Latin America in land reform, the development of agricultural credit, decent rural and urban housing, community development, sanitation and health facilities and the creation of urgently needed educational opportunities for all. The principal task must, of course, be theirs. No amount of help from us can achieve programs of social justice unless the nations themselves act to achieve such objectives. This is true as well of the nations of Asia and Africa. Yet, where they are willing to take the necessary measures, our aid can be an indispensable ingredient to social progress.

We therefore propose development grants to continue the established and invaluable point 4 program and to extend to a number of other countries the program of aid to social progress which we have undertaken in Latin America.

## SUPPORTING ASSISTANCE (\$581 MILLION)

I have spoken of development lending and development grants first because it is our purpose to emphasize insistently and increasingly the trend of our economic aid toward assistance to long-term development. We know, however, that there will be a number of countries in which our supporting assistance will be needed for some time. These include allies which are undertaking a substantial military burden, greater than their own economies can support. Other friendly countries provide valuable assistance to our security effort through bases and other facilities. Still others would face economic collapse and internal chaos without our continuing help. We must provide that help, but we do not intend that it will continue indefinitely. It is our purpose to encourage countries receiving this type of assistance to use it in ways increasingly related to economic and social development. We hope in this way that the amount of supporting assistance should decline and that such aid can be terminated or transferred toward development loans and development grants.

A few countries have made such progress that supporting grants may be ended with the current fiscal year. We hope that for others the point of transition will be reached in the years immediately ahead.

## INTERNATIONAL ORGANIZATIONS (\$153.5 MILLION)

International organizations have come to have an indispensable and irreplaceable role in development. The United States in the past has taken the leadership in creating and supporting the technical assistance and other aid programs administered by the United Nations and other international organizations. These programs have had an indirect value of immeasurable importance in strengthening the international organizations themselves, and our leadership in them. These multilateral assistance programs provide a significant means by which scarce resources of money, knowledge, and skills may be increased by contributions from other developed countries.

In some countries in whose progress we are deeply interested we must recognize a hesitation to receive direction or guidance from us or any other major power. Yet these countries will willingly accept advice on administrative and other reforms coming from international organizations of which they are members. In some cases where aid to progress is essential the circumstances are such that only the United Nations or other international organizations may be the effective instrument of aid.

There are those who contend that our assistance should be held entirely in our own hands or, at the other extreme, that aid through international organizations is the only road to progress. The sum requested under this category is not arrived at by any such generalization. It is composed of 10 items—each one of which is intended to serve a specific purpose and each one of which will be justified to you individually. Each of these contributions, whether to the United Nations or a regional group, supports the objectives we are trying to achieve in our foreign relations.

## DEVELOPMENT RESEARCH (\$20 MILLION)

This is a new proposal and one which I believe deserves your warm support, for it is intended to increase the effectiveness of every dollar you recommend for the use of our aid effort. It is proposed because the experience of the last 15 years has shown us how much we must still learn about effective assistance to the economic and social progress of other nations. The President's Science Advisory Committee has made a special study of this problem and has recommended the creation of a unit within the new aid agency to stimulate and finance intensive research on the best use of development resources. I believe every dollar put into this project will be repaid many times over in accomplishments.

## PROVISION FOR CONTINGENCIES (\$500 MILLION)

I do not like to have to tell you that in any year it is more difficult to foresee all needs of economic assistance funds than in the year just passed, but this is the case. In the tumultuous world in which we live, with the ever increasing probing and pressure of the Communist bloc to break through the defenses of the free nations, the flexibility which we have had in our aid program in the past must be increased in the future. Neither the Executive nor the Congress can safely predict now the precise needs for aid funds which, in wise regard for our own national interest, we shall need in the coming year. Abundant experience has shown us that, despite the most careful planning, events will occur which can now be foreseen only in part or not at all. For example, in the current year the Congress authorized \$150 million; but before the appropriation could be made, it was necessary to add an additional \$100 million for contingencies which even a few months before were uncertain or unknown. Even this sum has provided inadequate and has been supplemented by a transfer from the military assistance appropriation.

The President had at first planned to ask for this same sum for the coming fiscal year, but the pace of events has become such that he has increased his request by an additional \$250 million. This latter sum would be used only upon a Presidential determination in each case where a sudden and extraordinary drain of regular funds make necessary the use of this emergency reserve.

These are uncertain times of rapid change. If we prepare now for only what we can foresee we will expose ourselves equally to dangers we cannot meet and opportunities we cannot seize.

I therefore urge upon you most seriously the President's and my own belief in the importance of having available to him these requested contingency funds.

## INTERNATIONAL PEACE AND SECURITY ACT

Thus far I have dwelt on economic development and social progress as being essential to our own hopes for a future peaceful world. It is right that we should devote ourselves to such goals. However, there can be little hope of achieving these goals unless the nations we are attempting to help can be assured the opportunity of undertaking their constructive work in an environment of internal tranquillity and of

security against external attack. These is an inescapable partnership between economic and social progress on the one hand and conditions of internal security on the other. Neither can long exist without the other. Therefore, while we are undertaking new efforts toward development, we must not minimize the urgent need to continue our military assistance and to adapt it to new requirements.

While economic penetration by aid and trade are new weapons in the Communist arsenal, the old weapons of force are daily visible. The Soviet Union continues to maintain its great nuclear power. It and Communist China still have enormous conventional forces whose firepower is being constantly increased. These forces, poised on the borders of the free world, are a powerful and ever-present threat. The Communist bloc has added a new dimension of aggression: agitators, infiltrators, and guerillas whose objective is to abet or incite subversion or insurrection. Where there is justified discontent with poverty and oppression, the time is ripe for revolution. We can applaud a genuine movement for freedom. But the danger now is that, as in Cuba, the people's revolution against oppression will be stolen from the people and under Communist control become itself an instrument of oppression. We see this same technique now at work in Laos. In Vietnam also infiltrators from Communist Viet Minh are waging a campaign of terror and assassination to capture that developing nation.

We cannot know with certainty against which other nations these patterns of concealed aggression, of destruction from within, are now being developed. But we would be naive indeed to think they did not exist both along the borders of the Communist bloc and half a world away.

Until these threatened nations have been able to initiate measures for genuine progress which will arouse their people, there will be for many of them imminent danger of calculated disruption of their peaceful processes and attempted seizure of governmental authority. This must be prevented. If our urgent task is to encourage their economic and social progress with our aid, so is it also to assist them in maintaining the internal security essential to that progress.

Our goal remains to work out safe means of international control of weapons of mass destruction and regulations of armaments. While we work toward these goals, however, we cannot let down the shield of our security. We must continue firm adherence to our policy of collective defense everywhere that danger threatens. The imperative of maintaining NATO power need hardly be mentioned. You have only to look at the rising power of Communist China and the aggressive thrusts into Laos and Vietnam to grasp the need for strengthening the defenses of our Far Eastern allies and friends. And these indirect assaults are being mounted against this hemisphere.

The proposals before you are designed to cover the bare bones of these needs. Over the past few months we have been conducting a re-examination of all aspects of our policy of collective security and of our programs to effectuate those policies. These studies are still going on. The present proposals are based upon the conclusions we have reached thus far. Other plans and programs must be undertaken in the future. In several instances, these can be worked out only after we have consulted our allies. They will be reflected in our presentations to the Congress in future years.

We believe the \$1,885 million now requested is required to maintain essential positions of strength while further planning is being undertaken. More than half this sum is needed merely to maintain forces in being and to cover essentially fixed charges. About 40 percent is to provide modernized and improved weapons for those areas under most immediate pressure. By far the greatest regional share is directed toward the Far East. Our allies there maintain substantial and significant armed forces and the situation, particularly in south-east Asia, demands provisions for increased strength.

One more point about the new bill will be of particular interest to you. The contingency fund, as proposed in the authorizing bills now before the legislative committees, will be limited to the economic program. In order to provide added capacity for the military program to meet important needs, a new provision is proposed to make it possible for the military assistance program to draw up to \$400 million in Department of Defense stocks and services in any fiscal year. Use of this authority is conditioned on a personal determination by the President that it is vital to the security of the United States.

This strict test insures that this authority will be used only after the most careful consideration of the relative needs of our entire defense effort. Any such action must be promptly reported to the Congress and will be subject to reimbursement from subsequent appropriations for military assistance. Orders may be placed at once for any materiel needed to replace Defense Department stocks.

#### CONCLUSION

Let me summarize:

We live in a world where three great forces dominate all others. The first is the powerful demand for social justice and economic progress driving the peoples of a third of the world. A revolution of progress is boiling up simultaneously in scores of nations on three continents. Where this force is suppressed, it will explode. These peoples are on the move. They will not be denied.

The second great force is Communist imperialism. It springs from a militant dogma and the expansionism of the Russian state. It is vigorous and determined. It threatens the outside world with nuclear weapons, missiles, enormous land, sea, and air forces, and an arsenal of subversive and guerrilla tactics. It is fully conscious of the unrest in the new nations and determined to play upon it.

The third force is the force of freedom—the most powerful of all. It embraces the rights of man, the democratic ideal, and the reality, not the illusions, of independence and progress. It is the dynamic force in the world today, just as it has been since it marched at the head of our own revolution 150 years ago. We have been among the leading spirits of that force. We are now its center of power.

The great contest in the world today is over which force shall lead the revolution of progress.

The decision lies with us. The rising nations will not willingly choose totalitarianism if they have the choice of freedom. We have the resources, the capacity and the will to provide that choice and to lead this historic march.

This is a work suited to our Nation. Like our other great international endeavors, it is not a matter of partisanship, but of our whole people. The opportunity is before us.

I have no question that we will undertake our task. I have no question that we can afford to carry it out. Indeed, we cannot afford not to do so. In undertaking this program, prudence itself requires that we devote to it all the tools and resources required for success. The President believes, and I believe, that the authorities requested in the legislation and the funds now asked of you are indeed all required for success. They are vital in the truest sense to the protection and growth of the free world, and of our own Nation and people.

Mr. PASSMAN. Thank you, Mr. Secretary, for a very comprehensive statement.

Perhaps a few observations on my part are in order at this point.

This subcommittee acts, of course, by majority decision. I can assure you, and I am confident I speak for all members of the committee, that we will be absolutely fair in considering the money requests for foreign aid. In all probability, we will need to consult with you and your assistant from time to time as we go along.

It has never been my policy to mislead, but rather to be factual. Sometimes I do not think I am a very good diplomat in expressing myself publicly. However, I think it should be noted here that after 15 years and a cost of some \$106 billion—you have figures you can use, but those are the ones I see fit to use—to be told now that we must increase this spending and relinquish a substantial measure of control by the Congress, well, let me say, it is, at the least, somewhat shocking and disappointing. So, we will have to wait for the facts to develop.

#### DOMESTIC PROGRAMS HAVING ANNUAL AUTHORIZATION AND APPROPRIATION BILLS

Realizing that the trend is toward annual authorizations in dealing with our own Government, rather than long-term authorizations, and since there is a request to put foreign aid on a long-term authorizing and "backdoor spending" basis, it is going to be rather hard for some of us to reconcile your request with the actual facts.

Consider military procurement and military construction, both of which are of the utmost importance to our country. Both are on an annual authorizing basis. The space program—missiles for defense, and so forth—is also on an annual authorizing basis. So is the AEC construction program.

I might say that if you should review the record you would find that the Members of Congress, when they started this program, felt that what has happened would happen; therefore, they elected to put the program on an annual basis so that the Congress could have a careful look at it each year. I think I should say also that, unless we have been grossly misinformed, all of the agencies operating in this field are given the authority to plan on a longtime basis. All that they need is a sound plan. There are reams of information involving cases where witnesses have come in and said, "Now, we have started a project that may cost \$105 million. We have spent \$31 million, we want \$2 million this year, and the project will be finished in 1975." We could pin down hundreds of such cases. And, each time we inquired, we found that they worked on the basis of the cost of the completed project.

We make appropriations to meet our commitments to keep these projects going. The only projects that have been abandoned since I have been a member of the committee have been projects that the program's people themselves decided were poorly planned or not feasible, and so elected to abandon them. The record is full of that type of information. All of this is on a long-range basis already. It is up to this committee to scrutinize these programs and projects and provide the money required to continue them. When we find out now that this procedure is not satisfactory to the executive, it is difficult to understand why it is not.

I think it is also true that under the military, without exception, you have a 5-year program. I think we were in Bangkok and they said, "This is our 5-year plan. We want this much for next year, but this is the overall 5-year plan." We had to decide as to the amount of money needed to meet the commitments on the 5-year basis.

With respect to the development loan funds, they come in and say, "We need this money to meet our commitments." They will make a loan. It may be 5 or 6 years, or more, before the recipient draws out all the money; but they plan as to the ultimate cost when making the loan, and they get it piecemeal, and it will be years before they draw their last check. Surely that is on a long-range plan.

We want to cooperate. I think that, along the way, you are definitely going to be convinced this committee wants to be fair. Furthermore, I do not think we would be left in Congress very long if we did not approach these programs and problems on that basis.

We have disagreed with the executive branch on many occasions, only to be commended for our action by top executive representatives in subsequent years. The Congress, in its wisdom, has seen fit to reduce the President's requests for foreign aid by more than \$4.5 billion over the past 6 years. Each year, we have been condemned and criticized, but in the end, the facts have borne out the wisdom of our actions, and this fact has been acknowledged by executive branch officials. Yet, even after those substantial reductions, following long and tedious hearings, they have come in each year and said, "We have an unobligated balance." That fact alone would indicate that we have performed a very much needed and highly useful service. You are going to be deprived of that type of service, however, if you get the authorization you want, to take a large portion of the program out from under the scrutiny of the Appropriations Committee.

Now, I would not mention this matter if you had not made certain comment in your own statement. A very able Member of Congress came to me and said, "I will tell you how you can please the Department and save a lot of trouble in the future."

He said, "Two representatives of the ICA came to me and said, 'If Mr. Passman will resign his chairmanship, we will withdraw our request for long-term aid.'"

I would not have mentioned that fact if you had not said this:

I recognize that this proposal is of direct interest to this subcommittee. I know it is said that its purpose is to avoid coming to this committee for funds for economic assistance: this is not its purpose.

I think I would be less than honest not to indicate to you my own disappointment. This is a complicated program we have been work-

ing with for all these many years, and to see a new team come in and proceed to endeavor to remove a substantial part of it from annual congressional examination and review is disheartening.

You indicate over here, Mr. Secretary :

The flexibility which we have had in our aid program in the past must be increased in the future. Neither the Executive nor the Congress can safely predict now the precise needs for aid funds which, with regard for our own national interest, we shall need in the coming year.

We pass judgment annually upon the vast Military Establishment that gives us the major measure of security which we have in this country. We have to decide there how much they need. Along the way, we have to do that. Let us work similarly with you in this program, if we may.

On page 13 you say :

The statute does everything reasonably possible to preserve to the Congress effective control.

If that be true, why not retain the existing annual authorization and funding procedures? Why do you want to change?

Before concluding my remarks, I think that it is not inappropriate at this time for me to read this item into the record :

It is a gloomy moment in history. Not for many years—not in the lifetime of most men who read this—has there been so much grave and deep apprehension; never has the future seemed so incalculable as at this time.

In our own country there is universal commercial prostration and panic, and thousands of our poorest fellow-citizens are turned out without employment, and without the prospect of it.

In France the political caldron seethes and bubbles with uncertainty; Russia hangs as usual, like a cloud, dark and silent upon the horizon of Europe; while all the energies, resources, and influences of the British Empire are sorely tried, and are yet to be tried more sorely, in coping with the disturbed relations in China.

It is a solemn moment, and no man can feel an indifference—which, happily, no man pretends to feel—in the issue of events.

Of our own troubles (in the United States) no man can see the end. They are, fortunately, as yet mainly commercial; and if we are only to lose money, and by painful poverty to be taught wisdom—the wisdom of honor, of faith, of sympathy, and of charity—no man need seriously to despair.

And yet the very haste to be rich which is the occasion of this widespread calamity has also tended to destroy the moral forces with which we are to resist and subdue the calamity.

That, more or less, fairly well describes the situation that exists today, yet it was printed more than 104 years ago.

One might think he had read that item in yesterday's paper. History is repeating itself, and money is not going to cure the ills. But, even so, we are going to recommend all that is needed—in fact, more, I feel sure, as in the past.

I am going to yield to Mr. Taber to ask his questions.

Mr. TABER. Thank you, Mr. Chairman. I will not be very long with my questions.

I suppose you realize that this Nation was formed and set up by a group of men who had been through the mill. They provided for the granting of funds only by appropriations drawn out of the Treasury, not by notes, or anything of that character.

I was unable to understand a part of your statement. You stated in one breath that the Congress would be permitted to pass on what was provided for different agencies every year, and then in another

breath you wanted us to give you a 5-year program. I do not know what you mean. Perhaps I misunderstood what you said one time or the other.

The Congress represents the people. If you are going to take away from the Congress the control over the purse, the liberties of the people of the United States are gone. Their liberties are gone too much already because of these various rackets that have been put through as welfare legislation when they were not welfare legislation at all.

You may be able to give liberty to some other country, but there will not be anything left for the people of the United States if we go on with these programs. I cannot see it any other way. I am very much disturbed by the spending programs that we have had.

We passed this housing bill which never in the world could have been passed if the people back home realized what the situation is and what it is going to be.

Perhaps I am getting too old to be progressive, but to my mind this approach is utterly reactionary. It is designed to destroy and prevent the development of the resources of the people of the United States.

I do not know whether anybody ever thinks of the important things or not. To me, those are the liberties of the American people. That is the thing that I am most concerned about. Perhaps I am old-fashioned, but when you had the situation that our forefathers faced back in the days when the Constitution was put together, those men had been through perilous times and they had been forced into a position where they were obliged to fight to maintain their liberties.

You must know that the spreading out of our economy in such a way that we have a continuous deficit every year is heading us into the worst kind of deficit with no chance whatever of increasing our tax levy.

The poor people were given a \$600 exemption apiece in the tax bill, and the only way the taxes have been increased has been by wiping out at least a half of that through inflation. We are facing a situation here in the United States that is bad.

I do not know whether you have anything to say to what I have thrown at you. I would like to hear it if you have.

Secretary Rusk. I would be very glad to comment on your remarks, and the deep convictions you have expressed.

Let me say that I fully share your convictions about the origin and the nature of American liberty. Let me comment first, if I may, on your point about the long-range authorization we are asking for and the lending process.

Mr. TABER. Here is something more important even than that.

We have a group in this committee who have been trained. I have been on this committee for 39 years. The chairman has been on the committee almost as long as that. I have never served on any other committee in the House except a minor special committee. Every single member of this committee has been a Member of the House for a number of years, and we have gone into the things on the basis of what was needed. They have some idea of what it is all about.

I appreciate a lot of the other committees do not have the sense of fiscal responsibility that the members on the Appropriations Committee have. It does not appeal to them as deeply as it does to the members

on the Appropriations Committee. That is why I am so terribly disturbed about these back-door appropriations, and that is what this is.

Mr. GARY. Is it not true that the Comptroller General of the United States has made statements repeatedly before this committee that this subcommittee has not recommended too little money for this program, but that we have recommended too much and that is the reason for a great part of the waste and extravagance in the program?

Mr. TABER. That is correct.

Just to bear that out, I am going to give the gentlemen representing the Department a little picture.

Mr. PASSMAN. If the gentleman will yield, is it not also true that some of the top echelon officials in the executive branch have stated we had made it a more effective and better program by our examinations of the operations and the reductions in funds?

I think witnesses are here this morning who will recall those statements. I shall read into the record, verbatim, at a later point, some of the testimony to that effect.

Mr. TABER. I was chairman of the committee back in 1948. This matter came before the committee when they started foreign relief. The first thing on a large scale was an appropriation of about \$800 million to be used for helping Greece and Turkey get along and hold their situation. That was passed in the latter part of 1947. They had \$400 million out of the \$800 million left when the 1st of April came around.

The Congress passed the first large-scale authorizing bill. They were asking for \$6 billion and they reduced it in the Senate to \$5 billion. It came over to us and we appropriated in the House in the neighborhood of \$3.1 billion.

It went to the Senate and it was raised practically to the Vandenberg figure. In conference it was set at \$3.9 billion. Out of that \$3.9 billion, how much do you suppose was obligated? One billion eight hundred million dollars. In other words, much less than half of what had been provided, and yet we were damned all over the lot because we had gone into the plan far enough to understand what it was all about.

They came before us, Secretary Lovett, Paul Hoffman, and Secretary Forrestal. They came to see me. They wanted me to put it through without any hearings.

I told them "No, we would have complete hearings." We had hearings and they last for over 2 months before we reduced it. We found after the hearings had been running 3 days they did not have any Marshall plan. They came before the committee and whatever plan there was was worked out in the committee during the hearings.

We have that history to go by as well as what the chairman has indicated. I thought it was the time, with the serious situation that the United States is confronted with, that the people who have a sense of responsibility and who want to see things done right continue to have an opportunity to follow the thing through and keep the United States right side up as far as it is possible to do so.

I did not intend to break loose with that, nor to brag about what I had done. I feel there must come a realization on the part of the administration and the heads of the departments as to how this thing could be done and how it could be worked out and still maintain the things all of us have been brought up to hold most dear.

Secretary RUSK. Mr. Taber, may I comment on these fundamental observations you have made?

First, about the nature of the effort that is called for from this country at the present time—we are engaged today in just as desperate a struggle for freedom as were those who founded this country; we have been called upon to go through much of what they went through, and we may yet be called upon to go through a great deal more.

Mr. TABER. Why should we take a step backward then?

Secretary RUSK. Let us look at this foreign situation. Those of us who grew up between World War I and World War II as men of military age, particularly those of us who were Reserve officers during that period, can remember the pacifism, the low military budgets, and the lack of preparation. We remember the chain of events which led from the seizure of Manchuria right down to World War II when suddenly our country, which had talked a great deal about pacifism, changed its mind and said to its young men, "Now you go out and fight this war."

It was World War II that delivered an enormous impact upon the budget of this country, the public debt of this country, and which shook us to our foundations.

If you will forgive me for these personal references, because all of us have lived these things along the years, just as you have, Mr. Taber. I went down to Cherokee County, Ga., a few weeks ago for a homecoming. They had several thousand people there in the county where I grew up as a boy, many of them my relatives. I had occasion to ask them in the course of my remarks how many people in that audience had had members of their own immediate family outside the United States in uniform during and since World War II in defense of liberty. Eighty percent of those people raised their hands.

Now, after World War II we demobilized at a precipitous rate until we reached a point in 1946 where we had no division ready for combat, no air group in the Air Force ready for combat, and we were doing our best to move back into an era of peace.

As you will recall, our military budget came down to about \$12 or \$13 billion just after the war.

Why is our military budget today over \$40 billion and almost 11 percent of our gross national product?

I need hardly to recall to this group how the Soviet Union undertook to push its world revolution, first against Western Europe, Greece, and Turkey, and later into other parts of the world.

We have to decide how we deal with it.

My impression, Mr. Taber, is that Mr. Khrushchev intends to push his world revolution with whatever resources are at his disposal in the less developed, neutral parts of the world; that he is going to move with energy and considerable resources to outflank our alliances, to jump over our alliances, to isolate us, and to cut us off, if he can, in a Communist world.

At a time when we are spending almost 11 percent of our gross national product for military defense, we are asking for approximately 1 percent of our gross national product to try to defend our vital interests without war, if possible, because if we come to war this 11 percent will go to 30, 40, 50, or whatever percent is required to win it.

The big difference in the next war will be that every man, woman, and child will be involved, rather than 15 or 20 millions of soldiers fighting outside the United States.

Now, I am not suggesting, Mr. Taber, I assure you, that this committee ought not, cannot, has not played a very effective and essential role in these aid programs. The searching examination, the criticism given by this and other committees of the Congress have made our aid programs far better than they would otherwise have been.

More important than that, when people in the executive branch, of whatever rank from top to bottom, recognize that what they do with the funds of the United States which are entrusted to them, that what they do to those funds will be subjected to the close and vigorous scrutiny of this committee, it makes better public servants out of them. There is no question about that.

#### "BACK DOOR" APPROACH TO THE TREASURY

Mr. TABER. We would not have any scrutiny with the back door opened up.

Secretary RUSK. The committee, Mr. Taber, would have every opportunity for rigid examination of what is being done.

Mr. TABER. After it had been done, but nothing in advance.

Secretary RUSK. That is correct, in terms of specific loan commitments or applications.

We are not asking, sir, that the Congress yield its constitutional authority. What we are asking is for the Congress to make a decision on how it exercises that constitutional authority and give us an opportunity to negotiate with other governments with some real assurance on a longer term basis than has been possible for us up to this point.

Now, the Congress would always be in a position, admittedly under, shall I say, more severe standards of judgment and pressures, to put its own limits upon this activity.

Mr. TABER. The Congress will be gone about that time. There will not be any return. About that time, the Congress would be gone.

Mr. PASSMAN. Would we have less, or more, jurisdiction if you get the "back door" spending approach?

Mr. TABER. We will not have any.

Secretary RUSK. You would say to us, as a Congress, that within these limits we authorize you to go out and make commitments over a period of time to other governments, subject to the necessary annual action of the Congress.

Mr. GARY. That is where I must disagree with you, Mr. Rusk, and I have been a friend of foreign aid since its inception. I think you are taking away from us our constitutional prerogative because the Constitution of the United States says no money shall be withdrawn from the Treasury of the United States except by appropriation.

Now, you are proposing to do away with the appropriation process. I am not so much worried about the long-term approach. What I am concerned about is the right to borrow from the Treasury without an appropriation. There you are clearly, in my judgment, bypassing the constitutional requirement that no funds shall be withdrawn from the Treasury except by appropriation.

If the Congress wanted to authorize 5-year spending, 2-year spending, 3-year spending, I personally would not have any great objection to it, provided the administrative agency has to come before the Congress each year for an appropriation to carry out that authorization. We do that in a great many instances. We do not require authorizations every year for other Government agencies, but here you are not only making it a long-term process, but you are doing away with the necessity of annual appropriations.

I, for one, must frankly say I could never agree to that. I could never vote for it. It would be against my better judgment and I just could not stultify myself to that extent.

Mr. PASSMAN. I know it was an oversight that you did not answer my question.

Would this committee have more, or less, authority over the appropriations if you get this back-door spending approach, as it is commonly referred to?

Secretary RUSK. I think on the question of sheer authority I would suppose the Congress retains its authority.

Now, on the appropriations for the annual budget for lending operations under the Government Corporation Control Act, I am not informed whether that particular item on this lending program comes to this particular subcommittee. I presume it would come here.

Mr. PASSMAN. Would we review before or after you spend the money, under the proposed legislation?

Secretary RUSK. You would determine each year whether you continued the appropriations which would be necessary to give effect to any commitments made by us over this long-term period.

Mr. PASSMAN. Would you be spending money prior to the examination by the committee?

Secretary RUSK. We would be making commitments in particular programs.

Mr. PASSMAN. And withdrawing and making disbursements prior to the time the committee has examined the expenditure?

Secretary RUSK. The lending authority would be based on an annual appropriation under the Government Corporation Control Act.

Mr. TABER. All we would have to do would be to make an appropriation after the job was done.

Mr. GARY. The only thing we could do is to limit it.

Mr. PASSMAN. You have your legal counsel here, and so this committee will not waste some 6 or 7 weeks, I think we should have the answer to this question. This is the law, the Constitution:

No money shall be drawn from the Treasury, but in consequence of appropriations made by law.

Mr. RUBIN. My understanding is, that for many years Congress has authorized various organs of the U.S. Government to borrow funds from the Treasury of the United States. These provisions have been in force and acted on by the Congress since, as I understand, about 1932.

Mr. PASSMAN. How do you get around that provision as an attorney interpreting the Constitution?

Do you not think it means just what it says?

Mr. RUBIN. It seems to me the provision says certain moneys can be withdrawn only upon appropriation, but that does not prevent the

Congress from authorizing various organizations within the control of the U.S. Government to borrow from the Treasury of the United States.

Mr. PASSMAN. We would not be appropriating money.

Mr. RUBIN. I would submit to you, sir, that the long-standing practice of the Congress of the United States argues that particular practice is constitutional.

Mr. PASSMAN. Would you recommend that practice for our Military Establishment?

Would you want the Post Office Department to be financed on that basis?

Mr. RUBIN. I am afraid I am not competent to testify as to that.

Mr. PASSMAN. You ought to give more thought to the results before you come up with such proposals as this one.

Mr. TABER. The trouble is the last 3 or 4 years this back door appropriation business has become so prevalent that we have come almost to the point of destroying any orderly approach to the handling of public moneys.

Mr. FORD. Will you yield there?

Mr. TABER. Yes.

Mr. FORD. At the time of the original Marshall plan, Mr. Secretary, was there an authorization for a figure of approximately \$17 billion for a 3- or 4- or 5-year period with subsequent annual appropriations?

Mr. GARY. I can answer that. I was chairman of the committee at that time. The Congress has always insisted, up to this time, that all foreign aid authorizations and appropriations shall be made on an annual basis and, therefore, we have had to have two bills each year: one, the authorization bill, the other the appropriation bill.

I can see some objection to that practice. I can see that it might be desirable for the Congress to authorize for more than a period of 1 year. I say, therefore, why not authorize for a longer period and then let the agency come in each year and get an appropriation for the amount it intends to spend during that particular year?

Mr. FORD. I agree with you exactly, Mr. Gary, but somehow in the back of my mind I have the impression that at the time of the original Marshall plan authorization there was a figure of approximately \$17 billion authorized.

Mr. GARY. No, it was not authorized. It was stated at the time that the program would probably take 5 years and cost \$15 billion.

Mr. TABER. It was just talked about.

Secretary RUSK. It was stated as general policy, and because the figure was discussed, it was included by implication in the general policy.

Mr. TABER. Congressman McCormack and Senator Vandenberg both made that statement.

Mr. GARY. I think General Marshall also did so in his proposal, that it would cost probably \$15 billion over a period of approximately 5 years.

Mr. FORD. But that never appeared in the law itself?

Mr. GARY. It was never officially authorized, it was just an estimate that was made at the time.

MR. PASSMAN. In that connection, I, myself, might not oppose legislation for a 2-year authorization, placing a limitation, then leave it up to the Appropriations Committee, working with the departments and the witnesses, to ascertain the actual needs. You have that procedure in the Development Loan Fund. We meet with your people and we hear their statements and examine the operations then we reach a decision and make a recommendation as to the amount of money that should be appropriated against the authorization. That was in the 1959 act. I would not object to such an authorization as that.

You state that the flexibility which we have had in our aid program in the past must be increased in the future, and that neither the Executive nor the Congress can safely predict now the precise need for aid funds, which, in wise regard for our own national interest, we shall need in the coming year.

It would appear to me, if you are that uncertain as to the needs, that you actually should suspend your request until you can more accurately establish the needs. I do not think you would ever recommend that the Congress should become so lax that it would start pouring out billions of dollars to our agencies, even to our own Military Establishment, if they could not reasonably determine their needs, but wanted a blank check for expenditure as they might see fit.

I think you may agree that this is a rather uncertain approach. You are profoundly honest in everything you do, and you are fair enough to state that you do not know how much money you need. I wonder what the feeling of the Congress would be if the military, the Post Office Department, the other old line agencies with which we have been dealing for 175 years, would come in and say, "We do not know how much money we may need, but we want you to give us the authorization to spend whatever we think is necessary."

I just do not believe you would ever endorse such a program as that.

Why would you want to make an exception for something as complex as this foreign aid program, which many of us have grown old trying to understand? For this new team, in office for 6 months, to come up with a proposition like this, it naturally causes a certain amount of disappointment.

Secretary RUSK. May I have the privilege of commenting on that? In order to get to the motives behind these proposals, I do want to say, just as simply as I can, that the motive in these requests is not to avoid this committee.

MR. PASSMAN. You would be avoiding it.

Secretary RUSK. Let me tell you what we are asking of you and why: We are asking for the Congress itself to decide to exercise its power to permit us to make assured longer term commitments than we feel we are able to make at the present time, and also to have a larger contingency fund than we have at the present time.

Why? In this foreign policy business, the foreign aid business, we are fighting in a world over which we have no direct control ourselves. That is, we can influence events, but there are things happening which we cannot shape. The situation changes radically from time to time, partly because an aggressive force like the Communists can, them-

selves, take an initiative in the course of a month or two and create quite a new crisis, and dump an entirely new situation on our hands.

Unless we have some contingency flexibility, some real contingency flexibility, it is very difficult for us to respond quickly and promptly to situations that suddenly become much worse in a place like Vietnam, or a new situation such as the Congo, or whatever is going to be the next crisis coming down the road. We know we are going to have a number of these crises because that is the nature of the world struggle in which we are involved.

When we get a situation, for example, like the real recent crisis in a South American country, it is necessary for us to move promptly and to take certain measures. We may have to take weeks and weeks to patch together a crazy quilt of little bits and pieces of funds from here and there instead of deciding what has to be done to meet that emergency and moving promptly to meet it at a time when preventive action can be less expensive and more helpful than curative action.

Mr. TABER. Who takes the time? This committee does not take the time.

Secretary RUSK. I did not imply that, Mr. Taber.

Mr. TABER. You had better find out who takes the time.

Mr. PASSMAN. Mr. Secretary, will you yield at this point?

Secretary RUSK. Yes.

Mr. PASSMAN. We are trying to understand this. Do you feel that of all facets of this foreign aid program, one is about as important as the other?

Secretary RUSK. That is correct, sir.

Mr. PASSMAN. Then why did you not ask for the entire program on the back-door approach? If there is a real need for back-door spending why do you not also ask for the contingency fund on the back-door basis? Why do you pick out only certain items, if one is as important as the other? If that is the case, why did you ask just for part of it?

Secretary RUSK. The borrowing authority is to be used only for the longer range lending operations. The direct grants which are on an annual basis are in the annual appropriations.

Mr. PASSMAN. If the direct grants are as important as the long-range aid, why did you not ask for all of it through the back door of the Treasury?

Secretary RUSK. On these grants, there are a considerable number of them which we can, in fact, anticipate, and where we can anticipate them, we feel we ought to come down here and tell you what we propose to do, subject them to your criticism, and let you help decide whether we should do them or not.

#### QUESTION OF WHERE REGULAR APPROPRIATION PROCEDURE HAS FAILED

Mr. PASSMAN. Can you indicate anywhere, through 15 years, where the program has not had sufficient money to carry out the policies of our Government? Can you indicate any place where the executive had to curtail a program or abandon a program because the Congress did not provide the money? Can you pinpoint any such instance?

Secretary RUSK. On that point, Mr. Chairman, we have to live, of course, within the appropriations available.

Mr. PASSMAN. The program has had money left over every year. One year when I went on trial down at the White House, along with

Mr. Taber, they were complaining about the reductions. But the fact of the matter was that more than a half billion dollars had lapsed only 48 hours before that time. The President admitted, of course, that he had been misinformed.

Would you try to pinpoint for us any great damage the Congress has done because we did not provide for the executive branch all the money it actually wanted?

Furthermore, is it not a fact that these programs and projects are already on a long-range basis? Even with technical aid, as big a waste as much of it is, some of it has been planned for as long as 12 years.

This committee has never cut out a project of that kind. We may be critical, and may reduce the appropriation to an amount nearer the actual need; but, even with our scrutiny and the reductions, they come back with money, they admit they overestimated their needs, but that is not again the case, because, they say, a new team has taken over and will be accurate in the future. But, always, there has been a repetition in the following year.

This brings about confusion. There are pages and pages of projects in the record which will not be completed until 1964, or 1968, and some as far away as 1975. The military program is on a 5-year basis.

If you will indicate where we have damaged the program or where you have had to curtail the program, or where the program has ever been short of funds—when, actually, it has had funds to switch around all over the world—then that would be another matter. But, I do not know of any project that has been abandoned or hurt by the action of this subcommittee, the full Committee on Appropriations or the Congress.

Mr. GARY. Will the gentleman yield?

Mr. PASSMAN. Yes.

Mr. GARY. Is it not more important really for the Congress to have a say on long-term programs than it is on short-term programs? If you are going to plan a 5-year program, we ought to have an opportunity to review it each year.

#### PRIOR AUTHORIZATION FOR MORE THAN ONE YEAR

In further answer to Mr. Ford's question, so far as I can recollect—I have been on this committee ever since foreign aid first started, I had the privilege of serving as chairman during most of the time that the Marshall plan was under consideration—but my recollection is that the first authorization for more than 1 year given by the Congress was in the Mutual Security Act of 1959 under section 203 of which we said:

There is hereby authorized to be appropriated to the President at any time after enactment of the Mutual Security Act of 1959, without fiscal year limitation, for advances to the Fund after June 30, 1959, not to exceed \$1,800,000,000, of which not to exceed \$700,000,000 may be advanced prior to July 1, 1960, and not to exceed an additional \$1,100,000,000 may be advanced prior to July 1, 1961.

Why could not the situation be taken care of in some action of that kind rather than authorizing the administration to go to the Treasury and take money out at any time without any control by the Congress?

Mr. PASSMAN. Will the gentleman yield?

Mr. GARY. Yes.

Mr. PASSMAN. You would certainly preclude this from happening if you operated on that basis. I read from one of maybe 200 newspaper clippings:

United States offers India \$1 billion in aid over 2 years. Indian Government officials expressed great appreciation today for American offer of \$1 billion aid to India during the next 2 years. The offer is contingent upon a matching amount being raised by others—Indian financing for her 5-year development plan, Britain, Germany, Canada, Japan, World Bank. A reliable source confirmed the size of the American offer, which was based on expected congressional approval of President Kennedy's foreign aid program.

You people go out and you cannot wait until you get the money—not you personally—or until the elected representatives of the people pass judgment on the need.

Secretary RUSK. This sort of commitment is made subject to the action of Congress.

Mr. PASSMAN. Is that the way to do things?

When matters such as this one are publicized, it creates a certain obligation on the part of the Congress to provide the money. As far as the legislative branch of the Government is concerned, especially this committee, it will not amount to very much in the future if the administration gets even half of what it is requesting.

#### QUESTION OF WHERE REGULAR APPROPRIATION PROCEDURE HAS FAILED

Secretary RUSK. May I add to the comment on this point that I was making a little earlier. It is very important for us to be able to ask other governments the right questions when we talk with them about the possibilities of aid. Unless we can talk with them about their own long range intentions, plans, and commitments, the question from them to us tends to be: What can you do for us this year?

What we ought to be asking them in return is: How are you going to develop your country? What are you going to do to get your own resources mobilized, your own plans laid on, your own effort made?

Apart from the country which might receive the loan assistance for a thoughtful, systematic, well thought-out program of development over a period of years—

Mr. PASSMAN. Could you name a few—

Secretary RUSK. India is an example.

Mr. PASSMAN (continuing). Where we have failed? Where have we failed India? We have poured money into India. Do you know any commitment we have not lived up to?

Secretary RUSK. If we were on a basis of annual appropriations and had lending commitments ahead, those lending commitments would be the automatic first priority on any appropriations.

Mr. PASSMAN. Mr. Secretary, have we defaulted anywhere in India? Or, have we defaulted on any commitments to Laos, for example, where we have put in \$300 million?

Secretary RUSK. When we make a commitment like this to India, subject to congressional action, as we do at the present time, we are in the position of gambling rather heavily on the total problem of aid.

Mr. PASSMAN. Should the Executive assume to have the authority to absolutely ignore the people's elected representatives, and not give them an opportunity to express their views before going out and making a commitment of this type?

Secretary RUSK. Mr. Chairman, we do expect, and Mr. Coffin and others will tell you specifically what we have in mind on this lending authority, we do expect to keep in close touch with the Congress on these plans as we come down every year for our discussions.

What we are asking for, as we see it, is that the Congress put us in position to take care of the interests of the people of the United States in our foreign relations.

Mr. PASSMAN. Where have we defaulted? Where have we let you down in the past 15 years? There are 101 nations in the world, and we are in 87 of them with foreign aid. Where has the program been short of money? What contracts has the executive branch failed to consummate because of not having the money or by believing the Congress would not back it up?

Members of Congress are just as anxious to preserve the country as any others are. But, please, let us not destroy the processes of government our Founding Fathers gave to us.

Secretary RUSK. If we were limited to international negotiations with a high degree of assurance, it would mean we could go to governments who are in position to develop long-range plans and say to them to settle down and really tell us what you expect to do to develop your country over a period of years and let us talk with you about what critical part we can play in it.

Secondly, we are not in position to negotiate with other industrialized countries, such as those who took part in the consortium, on the kind of help they will give over a period of years unless we can tell them what we, in effect, think we can do over a period of years.

Mr. PASSMAN. You brought out something that will help both of us. I can cite you seven or eight instances. For example, the Bogotá Conference. We certainly rose to the occasion. Mr. Dillon went down, and he made the commitment. That commitment was based upon assurance that, without exception, no money would be appropriated until they had reformed their tax laws, put into effect a land reform program, and all the established criteria had been met.

What happened? The Congress, notwithstanding the failure to meet the pledges for justifications, and so forth, appropriated the entire \$500 million that was requested. I think you could spend the rest of this year looking for instances where the people's representatives have let the executive down by failing to back up the commitments, and you would not find them.

We see this as giving you a blank check. You would be taking it out from under the scrutiny of the appropriate committees and the Congress. Once you should get it, and go off with it, you would have the authority to withdraw the money and to spend it.

If you can just cite some instances where we have let you down, I will change my viewpoint. But, now I can see that you are getting ready to get this foreign aid program up to maybe \$7 or \$8 billion annually.

This is really alarming. We heard some witnesses yesterday for the Inter-American Bank, and we discovered that if this committee should not recommend the funds for the Inter-American Bank, they could then borrow money from the Development Loan Fund. If you get the Development Loan Fund through as a back-door approach, any money this committee or the Congress, in its wisdom,

may deny some of the other agencies, they can get it from the Development Loan Fund. This thing is that far reaching.

Secretary RUSK. I am not familiar with that particular provision.

Mr. PASSMAN. They would get out in the future and need additional capital, and if the Congress should not make it available to them within the limitation, they could borrow it from the Development Loan Fund. It is a process you would not like, yourself.

Mr. GARY. Will the gentleman yield?

Mr. PASSMAN. I yield.

Mr. GARY. Getting back to India, we are talking of a 5-year program for India. Is not this about the third 5-year program in India?

Secretary RUSK. That is correct, sir.

Mr. GARY. They were able to carry on the other 5-year programs without the United States having this authority. Why can they not carry on the next 5-year program?

Secretary RUSK. If we and other governments could have entered into that development effort of theirs stronger and with more assurance some years ago, they would be further ahead in their program today.

Mr. PASSMAN. Does that mean with more money?

Secretary RUSK. With more assurance.

Mr. PASSMAN. Would that mean more money? As the program has been, we have lived up to every commitment.

Secretary RUSK. More money from a variety of sources.

Mr. PASSMAN. Can you pinpoint the failure in India? Was it because of lack of money?

Secretary RUSK. It was lack of assurance for their external financing for a period of years by a variety of governments. They drew down heavily on their foreign exchange for lack of assurance and got themselves in a rather dangerous position.

Mr. PASSMAN. We came to the rescue with additional money, over and above our original commitment, did we not?

Secretary RUSK. That is correct in part.

Mr. PASSMAN. Where did the committee or the Congress let you down? It looks as though we walked the last mile with you. I am thoroughly convinced, not with reference to you, but from the general bureaucracy downtown, that they want to get this spending out from under the scrutiny of the appropriate congressional committees; and, in all probability, if you get the legislation requested, you will rue the day; you would regret it, because thereby you would be tending to destroy one of the principles that has made this country great. The legislative branch must not abdicate its responsibilities.

This is a matter which we could discuss on and on. I do not believe you have a person in the executive department who can point out where this committee has ever rendered anything but a useful service to your Department, by requiring those people to justify their money requests. Some of them, however, do not like to answer some of the questions asked by the members of this subcommittee.

Secretary RUSK. We expect them to do so.

Mr. ANDREWS. Will the gentleman yield?

Mr. PASSMAN. Yes.

## PROJECTS CONTEMPLATED UNDER 5-YEAR TYPE COMMITMENTS

Mr. ANDREWS. What type projects do you have in mind that you could handle better with a 5-year authorization than you can handle under the present annual appropriation process? Are they public works type projects?

Secretary RUSK. The types of purposes for the 5-year type commitments are the long range national planning proposals of particular governments. Take Argentina, India, or Pakistan. They will sit down and tell us how they expect to achieve a decent rate of economic and social development over a period of time. Those plans will involve, as far as they are concerned, practically every public expenditure that they themselves will require.

Mr. ANDREWS. What we call in this country public works, dams, roads?

Secretary RUSK. Education, schools, communications, things of that sort. With a long-term plan of that sort, there will obviously be, in most cases, a short fall of foreign exchange resources over and above what they expect to receive from normal trading channels and patterns.

If the industrialized countries of the West can say to them, "Get on with your plan, we think this makes sense, we would change it here or there if we were you because we think you can develop faster if you do it this way on this particular point, but if you go ahead with this plan, commit your own resources, get your own people trained for it, get your own private investors to take their share of it, we will underwrite your foreign-exchange requirements on the following basis over a period of time."

Mr. ANDREWS. I am sure you know that in this country Congress will authorize the development of a dam or a road or other public works projects, but each year it is necessary for the advocates of that project to come back before the Appropriations Committees and ask for additional funds.

Mr. PASSMAN. Then the committee determines what is actually needed. They never get what they ask in total.

Mr. ANDREWS. In all cases where an original appropriation is made for a particular project, subsequent appropriations are made to the completion of the project. But it is necessary for them to come before the committees annually. These Governors and mayors and interested people come from all over America. The Public Works Subcommittee recently heard over 1,100 witnesses from all over America. They came here to testify about projects, some of which had been underway for 3, 4, 5 years or longer.

Mr. PASSMAN. If the gentleman will yield, there is a little project in my district for which they want \$250,000. I may get it and I may not get it. I did more lobbying almost than I did to come back to Congress last time to get \$250,000. If I do not get it, however, I will not fall out with America.

## QUESTION OF WHERE REGULAR APPROPRIATION PROCEDURE HAS FAILED

Mr. GARY. If the gentleman will yield, on the other hand, do you know of any project that has been authorized by the Congress and on which construction has been started for which the Congress has

withheld funds at any time for completion of the project without cause?

Mr. PASSMAN. I know of no such instance, but I would add that if the Corps of Engineers should attempt to do some of the things of that type here in America, there would be a general court martial.

If our own people, running our own programs in this country, should violate laws that apply to our own Nation as frequently as some of the foreign aid people do, they would, in all probability, be prosecuted. Members of this committee know of some things entered into through this program that were absolutely contrary to law. I am repeating, but I think it is worthwhile repeating, so I ask again: Can you pinpoint, or can you recall, any instance through which we have embarrassed our Government, or where we have caused contracts not to be entered into, or any commitments we made financially not to be fulfilled, on account of the actions—or the lack of action—of the regular processes of the Congress in appropriating money?

Secretary RUSK. Mr. Chairman, it is not so much whether particular instances or particular agreements or contracts, in the past, have had to be broken because of failure of funds because such agreements operate as an automatic top priority on any funds appropriated.

Mr. PASSMAN. Mr. Secretary, I have a very high regard for you. But, if this money gets away from the control of the Congress, you know that even many of our own people are going to be reluctant to drive hard bargains, and the recipients in general are going to think it is coming a lot easier, because we have relaxed our processes here.

Do you not think you would actually be doing more harm than good by getting this program away from control of the people's elected representatives?

Secretary RUSK. The question of control, Mr. Chairman, is one that I think is not basically involved in terms of the authority of the Congress to act if it feels it needs to or has to. What is important is our ability to negotiate responsibly with other governments, not only the recipient governments, but other contributing governments, over long-term commitments, to give them the assurances they need to enter into contracts with private firms for long-term engineering and other types of development which require an extended period of time.

The rate at which we can come to decisions on these matters is important because if we are limited to an annual cycle and have to confirm on an annual basis, as we would when large sums are involved, instead of the funds actually being available and not simply a matter of a gamble, then this slows down the process by which we get on with this job.

Mr. PASSMAN. If you pinpoint one project that has been slowed down on account of the action of the committee or the Congress, it will kill a lot of my argument. On the other hand, I can establish that maybe a thousand projects were abandoned because they were ill conceived or poorly planned. They even had a clause in the law by which they might use the deobligated funds and start new projects which had never been specifically authorized by the Congress.

If you can tell us, Mr. Secretary, where our Nation has fallen down in meeting a commitment, I would like to know it. As long as the money is forthcoming—and there is no record of the executive ever

having been deprived of the funds—I am surprised that you would not want to back us up in maintaining these processes.

You actually do not know of any instances in which we have had to stop our negotiations because of lack of funds in the past, do you?

Secretary RUSK. I think there have been many situations—

Mr. PASSMAN. Where are they?

Secretary RUSK. Where we have not entered into negotiations.

Mr. PASSMAN. Why would the Department let money lapse that is available for obligation and for contracts? Why would you let it lapse if you had something pending? I repeat, Mr. Secretary, one year more than three-quarters of a billion dollars, over \$500 million of it in military alone, was permitted to lapse.

Secretary RUSK. You do not even enter into negotiations if you are the United States if you do not see the resources behind you with which to follow through.

Mr. PASSMAN. I beg your pardon. You have projects which have been entered into that will run for as long as 12 years, and they say that in order to complete this project it is going to cost a certain amount of money, and for this year we want \$2 million, for example.

Secretary RUSK. On a particular project of that sort, yes.

Mr. PASSMAN. You enter into maybe as many as 500 of them with 1 nation.

Secretary RUSK. I am talking about negotiations looking toward a national long-term development plan.

Mr. PASSMAN. What do you mean by long-term?

Secretary RUSK. At least 5 years.

Mr. PASSMAN. We did not let you down in Latin America, did we?

Secretary RUSK. No, sir.

Mr. PASSMAN. Mr. Secretary, you are a very brilliant man. However, you could not, if you took the rest of this week, pin down where the program has ever had a project canceled, or where our country has been embarrassed, or any other instance where the program did not have sufficient money to meet the commitments made by our executive branch. Therefore, I hope you will cooperate to the end that the Congress may proceed in a sound and orderly manner, and make the appropriations for Government as the Founding Fathers intended for us to do.

Secretary RUSK. I would appreciate it if you would put that same question to my colleague, Mr. Dillon, who was in the operational end of this over the past several years and might be able to comment on it against a background of direct experience which I have not myself had.

Mr. PASSMAN. Most certainly not with any inference relating to Secretary Dillon, I would, however, like to tell you a little story.

There was a school district which had one group of school board members who said they believed the world was round and another group believed it was square, and they fired the principal. A prospective new principal came before the board and one of the board members said, "I want to know, Mr. Brown, do you believe the world is square or round?" He said, "Square." They said, "Get out."

Another applicant was brought in and he was asked whether he believed the world was round or square. He said he believed it was round, and he, too, was told to get out. Another applicant came in,

and he had become aware of what was going on. The question was put to him as to whether he believed the world to be round or square. He said, "Mr. President, I am in position to teach it either way."

This committee hears witnesses such as that, but, and I repeat, I certainly intend no such reference with relation to Mr. Dillon.

Let me read from previous hearings:

I note on page 79 that despite the \$955,161,000 we have programed to date for the United Kingdom, we are anticipating the programing of—classified—in fiscal year 1960 for grant-aid training and cost associated with delivery of material programed in prior years. In addition, we are programing for the mutual weapons development project. Why is it necessary to continue to spend—classified—for training in fiscal year 1960 in a country such as Britain?

Mr. SHUFF. That is in furtherance of a U.S. Government commitment to Great Britain. This must be off the record.

They say simply it was because we had made a commitment. We live up to commitments, even though the country and its people have recovered and do not need the aid, and that has been the case on an annual appropriation basis.

Let us take a recess until 1:30 o'clock.

#### AFTERNOON SESSION

Mr. PASSMAN. The committee will come to order.

Mr. Secretary, our disappointments and shocks are quite numerous. And, to increase those shocks and disappointments, our excellent staff assistant to the subcommittee is always placing something under my nose just about the time I get in a good frame of mind, and he knocks me right back down to the bottom of the totem pole. He has just handed me a clipping which reports another good reason why, in my opinion, foreign aid should not be on a permanent basis.

#### AIRFIELD IN SAUDI ARABIA

Let me read something from an item published in the Washington Post of Saturday, March 18, 1961:

United States to finish Arab airfield despite ouster.

The United States will finish building a \$5 million civil air terminal in Saudi Arabia even though the American Air Force has been ordered to quit using the airfield. This country also will carry out its promise to furnish \$20 million for development of the Saudi Arabian part of Damman, the State Department reported yesterday \* \* \*.

It is situations such as that one which make me believe that the Appropriations Committees should continue to examine this program.

Secretary RUSK. Mr. Chairman, may I comment on this?

Mr. PASSMAN. Surely.

Secretary RUSK. I do not believe we should assume that that is the end of the story on this particular situation. We expect to have exchanges with the Saudi Arabian Government about the future, but I am of course not able to give you an exact report at the moment on how these conversations might come out; but I would like to say here that this is not necessarily the end of the story.

Mr. PASSMAN. How about at the time the story was published? Had we entered into those softening agreements, or long-term commitments?

Secretary RUSK. The agreements on the air terminal were made some time ago, and it is true that the Saudi Arabian Government has indicated that the present agreement on the use of the airfield which

will expire this next year will not be renewed. The question of possible future privileges and uses of certain facilities there is still an open question.

Mr. PASSMAN. It would indicate that you have an agreeable Congress, to continue appropriating money with a condition such as that—in which we probably will not have the use of the facilities. I think it is a good case to indicate that the Congress will support our Government, even though we might think some of the agreements are very unsound.

Secretary RUSK. We do appreciate the situations in which the Congress has provided funds to help us make good on commitments.

Mr. PASSMAN. Whether they are good commitments or not?

Secretary RUSK. We hope they will be good ones.

Mr. PASSMAN. I know that we hope so, but there is no positive indication that some of them are?

Secretary RUSK. I think it is time, after 15 years, for us to look over the entire experience, on the record, and to try to raise in each case the kind of point you just raised about this.

Mr. PASSMAN. Blessings upon you for that statement. That is encouraging, and I hope that it can be that way.

I am now going to yield to Mr. Gary on general questioning, and then we shall get into detailed questioning later.

Secretary RUSK. Thank you.

#### BERLIN SITUATION

Mr. GARY. Mr Secretary, I wonder if you could tell us something about the Berlin situation now?

Secretary RUSK. I will be happy to, Mr. Gary.

First, just a little of the background, because the background now becomes critically important.

Back in 1944, when the Soviet armies were approaching Germany from the East and the Allied armies were moving into Germany from the West, the leaders of the United States, the United Kingdom, and the Soviet Union felt it was necessary to foresee the time when these two large armies would come together somewhere in Germany. They felt they ought to anticipate the meeting of the two armies and arrange for zones of occupation in Germany. That led to some agreements which set forth zones based upon rough estimates as to where these armies might, in fact, find themselves.

The agreements provided for a Soviet zone, a United Kingdom zone, and a United States zone, and, what is very important, a special territorial arrangement for the city of Berlin itself, greater Berlin. Greater Berlin was not a part of any one of the three zones of occupation but was a separate territory under the jurisdiction of all three of the then powers. At a later date, France was associated with these agreements and given a zone of occupation in the West as well as a portion of the city of Berlin. These positions were made a part of the surrender of Germany.

At the time of the actual surrender, the Russians had occupied all of Berlin and the Western Allied Forces had moved substantially further east than had been earlier anticipated and thus were substantially across the demarcation line between the previously agreed Soviet and the Western zones of occupation.

The Western Allied Forces drew back in those areas and then sent their forces into Berlin to take up their position there under the arrangements. These arrangements were made a part of the surrender of Nazi Germany. The position is that our rights in West Berlin, indeed in the city of Berlin as a whole, rest upon the surrender of Nazi Germany and do not rest upon an agreement with the Soviet Union. The Soviet Union acknowledged these rights in the various documents prepared at the time, but the essence of the rights stems from the surrender of Nazi Germany. Therefore—

Mr. GARY. The Soviet Union signed the surrender agreement?

Secretary RUSK. That is correct. They signed it but it is our view, you see, that these rights ran from Germany to all of us.

Mr. GARY. I understand that.

Secretary RUSK. And not from the Soviet Union.

Mr. GARY. But they were a part of these whole negotiations?

Secretary RUSK. That is correct. They are, in our view, committed to these arrangements. We, therefore, take the view that these rights are not subject to any decisions made by the Soviet Union. We do not hold these rights on sufferance. They are not dependent on contractual rights with the Soviet Union, so a denunciation of a contract would in no way terminate these rights. Over the years, and beginning with 1946, there have been many negotiations in trying to find a final settlement for Germany and Berlin. The Western Powers have made a series of proposals, almost all of them based upon the underlying principle of self-determination of the German people, and those have been turned down by the other side.

At the present time, the Soviet Union has, to an extent, come back to its proposals of about 2 years ago and has modified them slightly, but has put them forward now with great seriousness. In effect they are saying that they will offer us a chance to sign a peace treaty with Germany later this year. If we cannot work out a peace treaty for all Germany, a separate peace treaty would be worked out for East Germany and West Germany. If we refuse to join them in signing a peace treaty with East Germany, they will, themselves, sign a peace treaty with East Germany and they state that this so-called peace treaty would bring the state of war in Berlin and Germany to an end and that it would terminate our rights in West Berlin. Our right of access into Berlin would be at the behest of the so-called East German Republic because they state that the East German Republic would become a sovereign state. These rights of access would flow across that sovereign state and the East German Republic would then have to determine all questions about the use of these access rights.

We believe that they are serious in these proposals. We believe that the proposals are unacceptable; the notion that the Soviets can, by this type of unilateral action, cancel our rights in Berlin and our rights of access to Berlin, is unacceptable.

We are now in consultation with the United Kingdom and France, who are occupying West Berlin jointly with us, and with other governments, about how we will meet this serious threat in the months ahead. We believe that it has to be looked upon as a very grave development and that it will be necessary to impress upon Mr. Khrushchev that this is not something on which he can run over the West.

Mr. GARY. The President proposed a conference with reference to Berlin on yesterday, I believe in his news conference; is that correct?

Secretary RUSK. He did not propose a conference. I think the prospect is that on a matter of this sort, there will be, as there have been over the years, communications among governments about the problem, including communications with the Soviet Union. There are no specific plans at present for any particular form of negotiation or consultation on the matter. Obviously, in the case of a prospective crisis of this sort, every effort will be made to impress upon them that they must not interfere with our basic rights. This undoubtedly will lead to exchanges among governments; but, there is no formal forum or conference constituted at this point for discussion.

Mr. GARY. In any event, I heard on television last night that the President was probably going to propose a conference, propose to Russia that we have a conference with reference to Berlin.

Secretary RUSK. This is not a point of decision at this time. All of these questions are being discussed among the governments who have commitments to West Berlin, and this is not just a case for the three powers. It is of great concern to West Germany, the Federal Republic of Germany, and also the NATO countries who have made specific commitments to the security of West Berlin. The NATO countries are also involved and there has not been a decision on the particular form of any further discussion.

Mr. GARY. Thank you, sir.

Mr. RHODES. Would the gentleman yield?

Mr. PASSMAN. Just briefly, please.

(Discussion off the record.)

#### NO BACK-DOOR APPROACH TO MILITARY ASSISTANCE PROGRAM

Mr. PASSMAN. Do you do that with the military program?

Secretary RUSK. This does not involve the same degree of inter-governmental negotiations with other contributors.

Mr. PASSMAN. Is not the military aid just as important to these governments? Do you not have to deal with top echelon people in entering into these military agreements on a matching basis, as in other phases of the foreign aid program?

Secretary RUSK. Usually, sir, the military aid programs are a matter of direct bilateral relations between the United States and another government. On the economic side, you get involved with many multilateral negotiations as often other kinds of agencies participate, such as private organizations, international organizations, and other governments as well as the recipient governments.

Mr. PASSMAN. More interwoven planning than for SEATO and NATO? Do you mean that these negotiations for what we have referred to in slang as "handouts," foreign relief programs—where it is a grant, or a so-called loan which will not be paid back—are more important than the military alliances, such as NATO and SEATO, when they have to operate on that basis?

Secretary RUSK. Not more important but—

Mr. PASSMAN. Why did the President not ask for this, too, to be put in on the back-door approach?

Secretary RUSK. These economic arrangements are far more complicated in terms of—

Mr. PASSMAN. More complicated than the military?

Secretary RUSK. Yes, sir; in terms of arrangements with other governments.

Mr. PASSMAN. Witnesses have said it the other way in previous years.

I now yield to Mr. Rhodes.

#### BERLIN SITUATION

Mr. RHODES. I just have one brief question, Mr. Chairman.

Is our posture vis-a-vis the East German Republic the same as Russian posture vis-a-vis the West German Republic?

Secretary RUSK. The Russians will probably be very glad to see two independent German States emerge and under those conditions they would be glad to recognize both of those states. We, ourselves, believe that a divided Germany would create very considerable problems for the future in terms of a desire on the part of Germany to reunite. We believe that the peace and security of Europe in the long run would be more soundly based if the German people were given a chance to decide how they would like to do it. Therefore, we are reluctant to say we would recognize an East German Republic without some real indication from the German people that this is the way they wish to be permanently. I would not like to see this imposed upon them from the outside.

Mr. RHODES. What is our legal position as far as West Germany is concerned? We call it the West German Republic and we recognize it. However, as I understand it, we have not concluded a peace treaty?

Secretary RUSK. That is correct. We have contractual agreements with the Federal Republic of Germany which give that Republic all of the effective rights of nationhood. We recognize it as a government but we have not completely terminated the legal state of war with Germany through a formal peace treaty.

Mr. RHODES. Is this not just exactly what the Russians have done with the East German Republic?

Secretary RUSK. Their arrangements with East Germany are just about comparable.

Mr. RHODES. And they now desire to conclude a peace treaty with East Germany, end any status which they might now enjoy, and by some legal hocuspocus, to end any status which we enjoy, also?

Secretary RUSK. And to incorporate in East Germany the city of East Berlin for all practical purposes. As a matter of fact, although we have important rights in East Berlin ourselves, the Russians say those rights are extinguished and that East Berlin is a part of the territory of East Germany and, indeed, its capital.

If you try to talk about an all-Berlin solution, the Russians say that East Berlin is not negotiable and not discussable.

Mr. RHODES. Is that solution to the East Berlin problem similar to the one proposed by Senator Mansfield, the free-city type of approach?

Secretary RUSK. We have read Senator Mansfield's statement very carefully and it is rather similar to one he made about 2 years ago on the same subject. He was not speaking for the administration and pointed out he was speaking simply as a single Senator. The all-Berlin aspect of it is worth a good deal of thought. If East and West Berlin could be reunited with rights of access thoroughly guaranteed by those of us who have those access rights now, we think this would be a step forward in terms of a settlement that would, in the long run, be more viable and less dangerous. There are other aspects of it. For example, his suggestion of the idea of a free city whose security and safety would rest simply upon some current or fresh assurances by the Soviet Union would seem to us to be very uncertain as far as the future is concerned.

The Soviet Union has, in the past, several times, reaffirmed the very arrangements on which our present rights are based, and yet here they are trying to upset those rights. If the West Berliners were to suppose their future is at the mercy of the continuing willingness of the Soviet Union to permit them to survive, then we feel there would be a deterioration in the life of the city which would be very serious for the free world and for our own standing and reputation and security.

Mr. RHODES. Mr. Secretary, would not the fact that East Berlin has been made the capital of the East German Republic, indicate in itself that there is no chance of negotiating on the basis of a free city?

Secretary RUSK. I think, sir, that is so. As far as any prediction of any successful outcome of such a proposal would be concerned, I think so.

I do not think we ought to fail, however, to put forward proposals just because we think the other side might turn them down. There has been a tendency since World War II to allow too much discussion to turn upon whether the Soviet Union is going to be able to nibble away some more of our rights somewhere. If we, in turn, go back and make proposals which go beyond our present situation, for example, even far more adequate guarantees of access rights to West Berlin than we have now, even though we think they may turn them down, it seems to us important to make them and to force attention on them, and to strengthen our position in world public opinion.

Mr. PASSMAN. Mr. Natcher?

#### CONSOLIDATION OF DLF AND ICA

Mr. NATCHER. Mr. Secretary, since I have been a member of this committee, we have had some five or six Administrators of ICA. Some of these men, as you well know, have been right able men but too much of the time most of them have been ready to abandon ship just at any moment.

I am delighted with the statement you just made to the committee to the effect that there should be a consolidation of the Development Loan Fund and ICA into a single Agency. As I understand this particular proposal, the Administrator then would be an Assistant Secretary of State?

Secretary RUSK. An Under Secretary of State in rank.

Mr. NATCHER. An Under Secretary?

Secretary RUSK. Yes.

## QUALITY OF PERSONNEL TO ADMINISTER PROGRAM

Mr. NATCHER. Mr. Secretary I say to you quite frankly that he should be one of the ablest men in your Department. One of the reasons why this program has failed, in my opinion, down through the years, is due to the fact that some of the men in charge of it were too easily swayed away from the major purposes of the program. I think that if you go back and check you will find that to be true. You and I know that in this program hundreds of millions of dollars have been squandered.

For instance, last year, a contract with the Government Affairs Institute was entered into in February of 1957 for \$1,113,000. Under the contract they were to have 13 management specialists and nearly all of these people were former Government employees. Of this money, \$143,000 was for overhead and as soon as the contract was entered into they made demands for \$143,000 just for the overhead. Then \$319,000 was for salaries; \$154,000 was for transportation costs.

We found, Mr. Secretary, that the president of the Governmental Affairs Institute was paying himself \$10,000 a year salary and was receiving \$100 a day for every day he was out of the country assisting in the operation of this program in Iran. This contract was a contract whereby advice and guidance was to be given the ICA on the plan of organization in Iran. This was one of the many contracts that this committee—and I think generally I speak for the majority of the members—certainly did not approve of. It was one of many contracts, Mr. Chairman, as you well recall. There were over 1,000 contracts.

Mr. Secretary, all down through the years, the members of this committee on both sides of the aisle have complained very bitterly about the provisions of the contracts.

I say to you quite frankly that if this program is to be a success, the man you put in charge of it, must be an able man. A man recognized as such by the Members of Congress.

I think that the program inaugurated at one time in the Department which set up an Inspector General and a Comptroller, was good, but it was never carried out because this particular individual—and at the time Mr. Murphy occupied this position and certainly we recognized Mr. Murphy as an able man—but he never had any authority to do anything about the deficiencies and the matters discovered in the program that were detrimental to the program.

I sincerely hope, as just one member of the committee, Mr. Secretary, that the man who is selected to be in charge of this program is an able man.

I am delighted that you propose to consolidate the Development Loan Fund with the ICA. As far as the long-term proposal being made at the present time before the Congress is concerned, as you well know, that is highly controversial.

I want to thank you for the fine statement you made to our committee, Mr. Secretary, and say to you quite frankly you have the best wishes of the majority of the people in this country in your new assignment. We believe that you will do a good job.

Secretary RUSK. Thank you very much, sir.

I do appreciate your kind remarks and also the very realistic remarks made about the administration of the program.

Mr. Chairman, if I could, I would like to comment just a moment about one thing; I think this is a central problem in foreign aid operations over the years. We are going to need some top talent, not just at the top but in quite a few of these key places, such as the assistant administrators for geographic subdivisions of the program and country team directors where talents of the highest order are called for.

It would be quite wrong of me not to say to the committee that competition for the talent that is needed is very severe at the present time. There is also the problem of getting people of that kind of talent to turn loose what it is they are doing in private life and come to take up these responsibilities. We hope that we will be able to impress them with the fact that although there is not a major shooting war going on, there is, in fact, a war going on which is vital to us and that we are entitled to ask them to give up very attractive and inviting jobs in private life to come and do a first-class job of management and direction in a program of this sort.

There are and have been instances of waste in this program. Over the last 9 years, I have been working in the minor league of technical assistance with a private foundation which involved traveling to many parts of the world. I have seen a good deal of the official aid programs while attending to the business of private organizations. I am sure that there are many ways in which we can improve these programs, get more for our money, and avoid some waste.

I would like to put my finger upon one point which is critical and that, again, is this question of talent.

In a private organization you can make a determination that you will not even attempt a job unless you can find a highly qualified man to do it; but, under the pressures of governmental relations and the need to get on with a tough political or security job, many of these jobs have to be done or have to be attempted. Even there, I think that unless we can assure ourselves that qualified people are available, we ought not to attempt some of the things we have attempted in the past.

I think there have been some situations where money could have been saved had we waited until there were qualified people to carry it out, but talent is the tough thing. We have to get our talent by voluntary recruitment; the other side, the Communists get theirs by assignment. It is not easy to find people who combine the professional qualifications which will get the job done with a willingness to put them and their families for extended periods of time in these distant countries. At the same time, while we are looking for a key individual, the other side will come along and offer to assign a dozen people in the same sort of work and have them there within a week or 10 days. This talent hunt is extremely important and we hope to be able to bring some first-class talent into this operation, not only at the top in Washington but also in charge of the country operations. This is critical to the success of the program.

Mr. NATCHER. That is all.

## INTER-AMERICAN PROGRAM FOR SOCIAL PROGRESS

Mr. PASSMAN. Mr. Secretary, before yielding to Mr. Alexander, I would like to note that some 50,000 people are employed in the mutual security program, in all phases of economic and military aid. In this country it usually requires about 2 or 3 years to follow the processes necessary to comply with the law on a public works project, flood control, for example, or any other similar project.

With the assurance you have given us that this program is going to be sound, would you have a look at the half billion dollars that the Congress appropriated just a few weeks ago and determine whether it is not true that they are already making loans, or firming up certain agreements to make loans, to countries which have not even planned, or made any surveys, or had any consulting engineers on a single project? How can these people get the projects planned as they should be, and how can they get them started and soundly on the way in just a few weeks? In this country it requires 2, 3, and 4 years, with the very best of engineers, before you can justify a benefit-cost ratio. Do you get my point?

Secretary RUSK. Yes, sir.

Mr. PASSMAN. We require years to do it, yet in a country where they do not pretend to know much about it, we are in the process of approving loans for millions of dollars. Would you have a look at this situation?

Secretary RUSK. Yes, sir.

Mr. PASSMAN. This condition is not going to favor changes of the type being requested.

Secretary RUSK. May I make a brief report on this for the record?

Mr. PASSMAN. Certainly.

Secretary RUSK. Some of these things do have considerable background.

Mr. PASSMAN. Would that mean we have committed ourselves in advance, before getting the money from the Congress?

Secretary RUSK. Not on those particular ones.

On this point of progress under the \$500 million appropriation, I would like to offer a statement later for the record.

Mr. PASSMAN. Certainly.

(The information supplied follows:)

## STATUS OF INTER-AMERICAN PROGRAM FOR SOCIAL PROGRESS

The need in Latin America to overcome social and economic stagnation is great. The \$500 million appropriated by the Congress offers the United States a tremendous opportunity, working with the countries of Latin America, to respond to those needs with a sense of urgency. However, it is recognized that while it is important to move ahead quickly, if the programs and projects to meet these requirements are hastily conceived and poorly administered, the basic purpose of the program will be defeated.

The major portion of the funds made available are to be administered by the Inter-American Development Bank. The trust agreement between the Bank and the United States was signed by the President on June 19. The Bank has on hand many applications for loans with varying supporting material, including surveys and engineering reports.

No commitments were made by the Bank to governments or private persons prior to the transfer of funds from the United States. The Board of the Bank has given preliminary provisional approval to three loan applications, two in the field of low-income housing and the other for small agricultural credits. The

review of the technical and financial soundness of the projects will be identical to and as stringent as that related to other activities of the IDB. The programs are reviewed by loan committees, which consists of engineers, economists, and lawyers, for technical and economic feasibility. Where plans and surveys are necessary, these will need to be available before the projects are approved.

In carrying out the bilateral program, the ICA is setting in motion the Inter-American program for social progress with full regard to the need for assessment of economic, technical, and financial feasibility as well as the other criteria of the Act of Bogotá. Before funds are obligated for projects, these proposals will need to meet the outstanding requirements and criteria. As was indicated in the presentation on this program before the House Appropriations Committee, these funds will need to be utilized to cover the continuing costs of ongoing ICA projects which fall within the scope of the functional fields under IAPSP. This is necessary in order to avoid any overlapping with the programs financed under AID.

In both the bilateral and multilateral programs the major portion of the funds will be utilized in activities aimed at strengthening institutions and human resources where the criteria will be somewhat different from those applied to reclamation, water resources, and other large-scale engineering projects. Of course, the merits of the projects are considered in relation to the amount of aid involved. Under any circumstances, it is fully recognized that the use of these funds must be wisely administered, including the sound development and review of programs and projects.

Mr. PASSMAN. Mr. Alexander?

#### PROPOSAL FOR LONG-TERM COMMITMENTS AND BACK-DOOR SPENDING

Mr. ALEXANDER. Mr. Secretary, I am sure that I speak the sentiments of our committee when I tell you that we are delighted to have you with us, coming from Davidson, and being a graduate. I know a lot of mutual friends and we are delighted to have you.

Mr. Secretary, in the recommendations for long-term and back-door spending in the mutual security program, I believe that I speak the sentiment of a great many Members of Congress when I say that this certainly raises difficult problems for us. I hope that you and your assistants will give some serious consideration to some such step as possibly, giving your authorizations on long term, and at the same time, giving the Appropriations Committee an opportunity annually to review and to look into these matters.

I believe that somewhere along the line there might be some solution that possibly could be worked out to the advantage of the State Department and the mutual security program and certainly uphold the traditions of the powers of Congress.

#### CUBAN SITUATION

Mr. Secretary, realizing you only have a short while before you must leave, could you bring us up to date on any new developments in regard to the Cuban situation?

Secretary Rusk. The situation in Cuba has not changed appreciably in the last several weeks. There is no question but that the episode of some weeks ago in which about 1,200 to 1,400 Cubans attempted to make a landing there was a serious setback. It has resulted in some further consolidation of Castro's powers and in great numbers of Cubans seeking to flee that island because of the severe police measures and roundups which were initiated by Castro inside the island.

However, we do believe that there has been, since that time, a growing crystallization of opinion in other parts of Latin America about some of the issues that are involved. We think that it will be necessary as a first step to insure that the Castro-type revolution is insulated from neighboring countries in the Caribbean and that Cuba will be prevented from serving effectively as a base for furnishing of agents, arms, personnel, or whatever else might assist subversion in the rest of the Americas.

At the present time, we are approaching it in two ways; first, we must anticipate and be ready for a situation in which some overt act by Castro would make direct action necessary, such as an attempt to resume some of the attacks he made 2 years ago on some of his neighbors in the Caribbean, or any other steps that he might take which would be a direct security threat to the United States.

Secondly, we would hope to develop a strong OAS reaction to the spread of Castro communism in Latin America. At the present time we are consulting with other Latin American governments on this with some encouragement from a number of them. We shall be pursuing that line for the weeks immediately ahead. It is not a happy situation due primarily to interference in this hemisphere from outside the hemisphere.

The possibilities which exist in Latin America through poverty and misery and unsettled conditions are ripe for demagogic exploitation and Mr. Khrushchev, Castro, and their colleagues, may attempt other subversive efforts in this hemisphere. Indeed, at Vienna, Mr. Khrushchev pointed to certain of the governments in Latin America as being, in effect, ripe for his kind of revolution, which leads to Communist domination.

We must be very much alert to that and work with these governments and their neighboring governments to be ready to take whatever steps are necessary to prevent this or head it off.

Mr. ALEXANDER. Mr. Secretary, I realize you must go, but I do want to express to you the sentiment of the people I have the honor to represent, and I think I know them, they would want you and our administration to take a very firm and a very strong stand, not only with reference to the Cuban situation but with reference to any particular problem affecting your Department, wherever it may be.

I believe the American people are behind that and I hope that you, in your wisdom, will advocate that.

Secretary RUSK. Thank you very much, Mr. Alexander.

Mr. PASSMAN. Thank you very much, Mr. Secretary. We do regret that we have not concluded your examination this afternoon.

Will you be able to return tomorrow?

Secretary RUSK. Yes, indeed.

Mr. PASSMAN. Thank you, then.

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FRIDAY, JUNE 30, 1961.

Mr. PASSMAN. The committee will come to order.

It is certainly considerate of our distinguished Secretary of State to return this morning, for him to take sufficient time out of a very busy schedule in order to provide the committee with additional information on the mutual security program.

## ALLOCATION OF CONTINGENCY FUNDS FOR DEFENSE SUPPORT

I should like at this point to ask Mr. Bell if he recalls our discussion in the committee hearings of last year about the executive branch allocating money out of the contingency fund to the defense support category on the same day that the regularly appropriated funds for defense support were allocated. We argued such action as that would offset some of the reductions made by the committee in the defense support category.

Do you remember that discussion?

Mr. BELL. I will be very glad to ascertain and report it to you.

Mr. PASSMAN. Do you recall the discussion we had?

Mr. BELL. I recall the discussion, Mr. Chairman. My recollection is we had a discussion with regard to the use of the contingency fund at the same time there were funds in other accounts that hadn't been allocated.

Mr. PASSMAN. We made the point that you did not wait for an emergency to arise, but that you started allocating from the contingency fund to defense support on the same day that you received the funds. I refer you to page 2163 of our subcommittee hearings for fiscal 1961.

Mr. BELL. I remember that discussion.

Secretary RUSK. May I express my deep appreciation to you and the committee for adjusting your schedule to take into account some problems I had to take care of yesterday. I appreciate it very much.

Mr. PASSMAN. We hold you in very high esteem, and certainly wish to cooperate to the fullest possible extent.

## PROGRAMS INCLUDED IN FOREIGN OPERATIONS BILL FOR 1962

Mr. Secretary, have you been able actually to put together all parts of the mutual security bill, or that is, the items which will be handled by this subcommittee? Do you have the total amount? We also have in mind, of course, the Peace Corps, the Inter-American Bank, and IDA.

Secretary RUSK. The funds that are being asked for foreign aid for 1962, military assistance, \$1,885 million; economic assistance, in development loans, \$1,187 million, which includes the \$287 million which we are requesting be made available from loan repayments; other non-development lending, economic assistance, \$1,734 million which includes \$43.5 million available from prior year unobligated balances; the contribution to the International Development Association of \$62 million; the contribution to the Inter-American Development Bank of \$110 million; Export-Import Bank development loans amounting to \$400 million or more; the Inter-American program for social and economic cooperation, \$500 million, which has already been appropriated by the Congress in fiscal year 1961; the Chilean reconstruction and rehabilitation program of \$100 million, also made available in fiscal year 1961; and the Peace Corps, \$40 million.

## COMPARISON OF 1961 APPROPRIATION WITH 1962 REQUEST FOR FUNDS

Mr. PASSMAN. What is the total amount of these items?

Secretary RUSK. That total would be \$6,018 million.

Mr. PASSMAN. The total for the foreign-aid programs named would be \$6,018 million for the fiscal year of 1962?

Secretary RUSK. Not only for mutual security, but for all of the foreign assistance programs I mentioned.

Mr. PASSMAN. How does that amount compare with fiscal year 1961, for the comparable purposes or programs?

Mr. MOSSLER. We had in 1961, and I will give you the program figures that you will later receive in the presentation—

Mr. PASSMAN. Give us the total.

Mr. MOSSLER. It is a little difficult. If you will give me some time, I will give it to you in just a few minutes if I may do that.

I have the answer for you now, Mr. Passman.

The total of the mutual security program as such—

Mr. PASSMAN. Are you figuring the same items that the Secretary gave us?

Mr. MOSSLER. I want to qualify that a little. Some of it is in the mutual security program and some is outside.

Mr. PASSMAN. We would prefer, at this point, to follow the same schedule that the Secretary gave us.

Mr. MOSSLER. All right, sir.

The military assistance amounts to \$1,763 million for 1961.

Mr. PASSMAN. That is for the fiscal year that is ending today?

Mr. MOSSLER. That is correct, sir; the economic assistance, and this includes development lending and other economic assistance, would amount to \$1,881,700,000; in addition, there is \$297.5 million from the contingency fund making a total mutual security program of \$3,879,600,000.

Mr. PASSMAN. Have you picked up all the items the Secretary mentioned?

Mr. MOSSLER. Two or three of the items he mentioned are new programs. I will give you the information. For example, we had nothing in 1961 for the Chilean reconstruction and rehabilitation program; nothing on the inter-American social and economic cooperation program which compares to the \$500 million; the export-import development loan program, I believe you have agreed to drop that one, but it was just about at the same level. The contribution to the Inter-American Development Bank and the contribution to the International Development Association, I do not have those figures, but as I recall, these are new programs, sir.

Mr. PASSMAN. What is your total for fiscal 1961?

Mr. MOSSLER. The grand total then of the figures that I gave you was \$3,879,600,000.

Secretary RUSK. Plus the \$400 million would be \$4,279 million.

Mr. PASSMAN. Fiscal year 1962 then, is \$1,800 million over fiscal year 1961, if you get all the money you are requesting.

Secretary RUSK. That is approximately correct.

Mr. PASSMAN. Are my figures correct, Mr. Secretary, that, using your totals, the overall increase would be approximately \$1,800 million?

Secretary RUSK. With these figures, it shows about \$1,739 million, but the order of magnitude is approximately the same.  
(The following table was supplied for the record:)

*Foreign assistance programs*

[In millions of dollars]

	Fiscal year 1961			Fiscal year 1962 program request <sup>1</sup>
	Appropriation request	Appropriation	Estimated obligations and reservations	
Foreign aid program:				
Military assistance.....	2,000	1,800	1,763	1,885
Economic assistance:				
Development lending.....	700	2 600	655	<sup>2</sup> 1,187
Other economic assistance.....	1,575	1,431	1,462	<sup>4</sup> 1,734
Total, foreign aid program.....	4,275	<sup>3</sup> 3,831	3,880	4,806
Other foreign assistance:				
Peace Corps.....			( <sup>5</sup> )	40
Contribution to International Development Association.....	74	74	74	62
Contribution to Inter-American Development Bank.....				110
Inter-American program for social and economic cooperation <sup>7</sup> .....	500	500		
Chilean reconstruction and rehabilitation program <sup>7</sup> .....	100	100		
Total, other foreign assistance.....	674	674	74	212
Total, foreign assistance.....	4,949	4,505	3,954	<sup>6</sup> 5,018

<sup>1</sup> The appropriation request totals \$3,575,000,000 (\$1,885,000,000 military assistance; \$1,690,000,000 for economic assistance) and unobligated balances totaling \$43,500,000.

<sup>2</sup> Includes a supplemental appropriation of \$50,000,000 made under Public Law 87-14.

<sup>3</sup> Includes \$287,000,000 in estimated dollar loan repayments.

<sup>4</sup> Includes \$43,500,000 in estimated prior year unobligated balances.

<sup>5</sup> Excludes \$117,800,000 in unobligated balances which were continued available.

<sup>6</sup> Funded from economic assistance funds in fiscal year 1961.

<sup>7</sup> Funds are available until expended. It is contemplated that these funds will be obligated over a period of approximately 2 years.

<sup>8</sup> If the full Latin America and Chilean appropriations were to be obligated during fiscal year 1962, and assuming Export-Import Bank loans for development purposes total \$100,000,000, fiscal year 1962 program could total \$6,018,000,000.

**AUTHORITY TO TRANSFER DEFENSE STOCKS AND SERVICES TO MILITARY ASSISTANCE PROGRAM**

Mr. PASSMAN. May I, Mr. Secretary, ask for some clarification on one item? Under the bill pending before the Foreign Affairs Committee there would be a section, which I think is referred to as section 510 of the draft bill, which would permit the transfer of up to \$400 million worth of existing defense stocks and services to the military assistance program, in cases where the President concludes that this is vital to national security.

Assuming that the condition should exist, and it should be determined by the President that it would be in the interest of national security, if this authority should be granted would that not be equivalent to increasing the appropriation by \$400 million?

Secretary RUSK. I think that under that authority, if the President exercised it, since these funds would be replaced in the Defense Department budget, the authority would have the effect of doing that; yes, sir.

Mr. PASSMAN. We certainly are never going to question the integrity of the President, and certainly not your integrity, but we may

occasionally question the wisdom of your proposals and actions, which is our right, and it is the American way of doing things.

In the event this committee and the Congress should decide to make reductions of, let us say, \$200 million in the military request, and if at some subsequent date, after the Congress had adjourned sine die, the President should decide it was vital to the national security to authorize the transfer of \$400 million over to the military program, that would, in effect, cancel out the reduction made by the Congress?

Secretary RUSK. Mr. Chairman, the purpose of the flexibility that is asked in this item is not for the general program of military assistance. We have in mind here those desperate, specific occasions when, in spite of the most careful advance planning and anticipation, we might not be able to take care of a real emergency situation.

Let me illustrate with the privilege of adjusting the record somewhat before the record is published.

Let me cite the case of Vietnam where we have been trying to work with the Vietnamese Government to meet a desperate security situation in that country. They have 10,000 to 12,000 Viet Cong guerrillas there. The government is killing them at the rate of about 700 a month but they are also coming into the country at the rate of about 700 a month.

We have a very deep, far-reaching commitment to the security of Vietnam and to southeast Asia.

The Senate ratified that treaty by a vote of 89 to 2.

Now, we would want to do everything that we could to put the Vietnamese in a position to do this job themselves. If, in the course of the development of the situation, it were necessary to throw them a strong reinforcement of military supplies and hardware and we could not make the funds available from the normal military assistance program without a serious dislocation of other commitments to other countries, we would like to be able to call on the Defense Department stocks. This is because we are trying to work out such situations without involving American troops or intervention which, of course, from a dollar point of view, would cause the costs to skyrocket into billions.

It is that kind of genuine emergency situation which we have in mind as an example of a specific case. This is not looked upon as a device for reinforcing the broad military assistance budget.

Mr. PASSMAN. Is it not a fact, that this same type of situation has prevailed for several years? For instance, in Laos, in Vietnam, Korea, Taiwan. Is it not about the same kind of condition that we have dealt with in the past? If we did not have these emergencies and the need, of course, there would not be, I presume, any request for military assistance for our friends in other parts of the world. We have had the program for some time. We have experienced these same type of emergencies in the past. We have had the same kind of trouble spots for which we have had to provide money.

What has happened all at once that would require an exception to the manner in which we have been operating for, say, the past 10 years with regard to this proposition?

Secretary RUSK. Mr. Chairman, I would agree that as far as our general policy is concerned, we do not have an objective of providing military assistance all over the world; that is, we would like to have a situation where military assistance is not required anywhere.

We are aiming here at those situations of harsh necessity. In the case of certain of these situations, such as Korea, Formosa, and say, Iran, these are reasonably predictable and can be reasonably well planned in advance because conditions are relatively stable as far as Communist effort is concerned. That is, there is not as hot a war there as in Vietnam or in Laos. In effect, in certain places, such as Laos and Vietnam, we are helping somebody to fight a battle. It is an actual battle and we need the flexibility to deal with such situations which, in the President's judgment and determination, if required, might need to be reinforced promptly and quickly with military support.

Mr. PASSMAN. Mr. Secretary, these same kind of trouble spots have plagued us in former years. We have been supplying military aid in large quantities, and it has been quite worrisome many times, for instance, in Laos and Taiwan and Korea; but notwithstanding that fact, under the existing legislation the President has had sufficient authority to transfer out of one account into another, and he has had the contingency fund. Therefore, I wonder why this exception should be made, unless there is something that you cannot tell the committee.

Am I making a statement of fact, that you have included for just such emergencies as you refer to \$82 million that you may not even need, unless there is a greater emergency than now exists?

Secretary RUSK. There is, Mr. Chairman, a degree of flexibility in the normal budget of the military defense program. But let me comment on what I feel to be the margins of flexibility we must have to meet the situation in which we find ourselves.

Mr. Khrushchev, at Vienna, talked at considerable length about his view that communism is here to stay and, as he put it, "has won the right to develop." He followed up on his January 6 speech concerning his notion of the sacred war. To him, the sacred war means Communist support to revolutionary elements in situations where there is a chance for them to overthrow an existing regime.

I do believe that Communist effort along these lines is being increased. How, where, and when they will strike, in which particular countries or situations, cannot be predicted a year in advance because governments change and the Communist effort shifts from place to place. Therefore, when unfavorable situations develop, we feel that we must be able to move promptly and with the resources required in order to catch these situations early and try to avoid the drain on resources and effort that are involved in a long-range festering sore in a country like Laos.

For example, if the Communists tried to make a sudden and intensive fight in strategic countries in Latin America, we would not have time to go through the normal financing operations of Government. We must get what is needed in there almost literally overnight.

I, myself, do not believe that the flexibility in the present military assistance program is great enough to put us in a safe position to act with respect to situations that we can see developing.

Mr. PASSMAN. Mr. Secretary, some of us see that situation a little differently, although not in principle. Almost every year in the military program there have been unobligated funds. You have a peculiar situation there, in that if you cannot obligate you reserve, and there have been certain years in which very substantial unliquidated funds lapsed because the Department was unable to even reserve the money for use.

The Congress, in its wisdom, passed legislation giving the President the right to transfer out of unexpended funds up to 10 percent, other than from the DLF, into military assistance if, in his wisdom, it was desirable to do so.

In addition to that flexibility, there is the President's contingency fund. It was our understanding that the purpose of the contingency fund was to make available additional funds in the event an emergency, or emergencies, should arise. Then, when we go into the justifications we find that provisions for meeting emergency requirements in Laos and other southeastern Asia countries are contained in the budget request for continuing operations in southeast Asia.

There is a very substantial increase from the President's original indication of \$1.6 million for military aid up to \$1,885,000, with a substantial increase in the emergency fund. Then, to come along with this indicates at least to one member of the committee that you could at any time, during the recess of the Congress or while the Congress is in session, if the President should so order, offset any reductions that the Congress may make.

The President could very easily use his emergency powers under the law as it now exists, and may continue to exist after final adoption of the foreign aid bill, to transfer out of the emergency fund to offset any reductions that this committee and the Congress may make in the technical aid program, for example. If you should get the authority to withdraw, or borrow, from the Treasury without the regular processes, it certainly is going to release members of this committee to do other work.

You would have broad enough authority, in my opinion, to just about void any action that this committee and the Congress may take, with the back-door approach, with your contingency fund, and with this reserve.

Am I making a statement that is factual? Could the President not so nullify the actions of the Congress?

Secretary RUSK. I suppose that in a technical sense he could, Mr. Chairman. But, I think here is a situation where there has to be and ought to be—and I hope we can earn it—a degree of bilateral confidence between the Executive and the Congress on how we are going to deal with such difficult situations outside the United States.

We are not putting in this \$400 million request as a device for making up any cut in the appropriation.

Mr. PASSMAN. It could be used for that purpose, though, could it not, if the Executive should decide to do so?

Secretary RUSK. If the President himself decided it vital.

Mr. PASSMAN. And could the President, by the same vehicle, not transfer out of the contingency account sufficient funds into technical aid and other categories to offset any reductions which the Congress might make? Technically, those things could be done, could they not?

Secretary RUSK. As a matter of strict authority; yes, sir.

Mr. FORD. Will the chairman yield?

Mr. PASSMAN. If I may proceed briefly, please.

The total request now is vital, is it not?

Secretary RUSK. We believe so and are urging it strongly.

Mr. PASSMAN. Any reduction below what you have requested would certainly place the President in position to decide, even the day after he signed the bill, the amount requested was still vital, would it not?

Secretary RUSK. No, sir. I think we are using the same word in a different context. I personally believe deeply, and I know the President does, that the aid program we are putting before the Congress is vital to our national interest and to our foreign policy. But that is not the same thing as the President's deciding that defense articles from the stocks of the Department of Defense are needed in vital security interests. This is a different context which means that in a specific situation it is important to get defense materials out promptly and beyond the resources available in the ordinary legislation.

Mr. PASSMAN. What would you do about the \$1,885 million? If you received that appropriation, you would have that amount available.

Secretary RUSK. Yes, sir.

Mr. PASSMAN. If it is vital today, and you use that language in your presentation, but if we should make reductions, then you start your allocations, we shall say 10 days after you get the money, all the President would have to do, following the suggestions or advice of the military, would be to say that it is vital to national security and proceed to allocate a larger sum; and the congressional reduction, if any, would be automatically offset. I can conceive of the same type of thing happening in the other funds. Do you agree?

Secretary RUSK. Let me say this to the committee, with complete respect and candor: I have sat week after week with the President and his principal advisers looking at some very desperate and dangerous situations in all parts of the world. We are in a serious struggle with a determined enemy. This is where we start. It is going to be tough and it is going to require every ounce of energy we can put into it.

What we are asking for is a chance to run that race successfully and with the flexibilities that will give us a chance to do the kind of job that will save this country, possibly its very existence. If we cannot run this race successfully, it will certainly cost billion of dollars, many lives, and much more effort.

We are trying to deal with our vital interests, and I mean vital, in all parts of the world. We are trying to protect those interests without a war.

We are asking about 1 percent of our gross national product for that purpose. If we fail, then look at the budget of World War II, which is minor compared to what the budget of world war III would be.

These are the stakes, Mr. Chairman, and I can assure you that we are devoting enormous time, effort, energy, and thought to these problems at the very highest levels of Government. It isn't because of, shall I say, bureaucratic manipulation that we are putting in a bill

asking for these flexibilities. We are trying to say, "Turn us loose to run this race." That is genuinely and literally what we are seeking.

Mr. PASSMAN. Mr. Secretary, that statement indicates how fair you want to be.

That may be the trouble today, that we have turned the people loose too much. I can assure you that during the 15 years I have been in Congress, 13 years on the Appropriations Committee, 9 years on this subcommittee, 7 years as subcommittee chairman, that each year the testimony presented is practically identical in its nature. We have these emergencies. Ten or twelve of them could be named—for instance, the spitting in the face of our Vice President, almost lynching the President's public relations man out in Tokyo, a submarine approaching the harbor of New York, sputnik just went up. There always have been, and probably always will be, emergencies; but, nevertheless, this committee is trying to function as the people's representatives, going into the plans, putting our finger on waste throughout the world, and trying to bring about corrections and improvements.

It is a shocking condition, if you have time to go into it.

People in very high places say "Yes, you have made a better program by your scrutiny and by your reductions." Then, we go out and find instances in the military where these nations have said, and the MAAG chiefs have said, "We don't need this equipment." But Washington has responded, "It has been allocated. We will ship it anyway." The equipment, therefore, will be rolled in and it is declared excess. Those are some of the things we have been trying to help pin down. There is more information coming in all the time.

Couple that condition with the fact that, according to figures supplied to my office by the Library of Congress, our public debt now exceeds by about \$24 billion the consolidated public debts of all of the other nations of the world.

We find that in all probability about \$1 billion, or \$800 million at least, of this total amount is going into Europe, which is experiencing the greatest prosperity in the history of the existence of its countries. When we compare our public debt to all of the other nations of the world, and take into account the various other factors which must be considered, we wonder sometimes if we are not carrying too much of this load, and some of the other countries not enough.

I, myself, believe the record is clear that the program would be improved as the result of receiving less money and better controls, than would be the case with more money and weakened controls.

#### WASTE IN PROGRAM

If you wish to receive the information, I will make available for your own personal use the record of many instances of waste that we have been able to find around the world on our inspections and through our studies.

Secretary RUSK. A brief comment on that, Mr. Chairman. The problem of waste is very serious because we cannot afford any waste in this effort in which we are involved. However, waste is a problem that any organization can have. Certainly it is a problem in a large organization which is operating in all parts of the world, often under conditions which we ourselves cannot control. This is a constant

problem for all organizations, whether in Government or in private life.

There has been waste. You cited a case where we insisted upon shipping certain military equipment to a country which did not want it and felt it could not use it, and the equipment was sent simply because it was allocated. I should think that such a situation is not acceptable and it should not be acceptable. But I do not believe, sir, that waste can be repaired by the process of budget cuts. Waste is a problem of administration, within whatever level we are operating, and we have to keep the pressures on, from my point of view, from the Administrator's point of view, and from the congressional point of view. I think the alertness of the congressional committees and the investigations which they have made in their travels abroad are a very important instrument for identifying, repairing and preventing waste. This is a combined commitment of both the executive department and the Congress to try to eliminate waste in these programs.

I think we can give you complete assurance regarding our determination to do what we can to dig into and to draw lessons from the instances of waste which come to your attention and to ours.

Mr. PASSMAN. Mr. Secretary, I believe there are certain agencies in the Department which are turning for advice to some of those who have been profiting through contracts with the ICA, such as the Governmental Affairs Institute, which trained people for Iran, and the Brookings Institute with some advice; and Johns Hopkins was involved in a program in a rather expensive manner, to name but a few.

The same people who allocated funds for those contracts, as well as others similar to them, not only are still in the Department, but at least some have been promoted and given additional authority. On the other hand, there were some separations and transfers of some topflight personnel because they happened to disagree with mission heads.

This is a story, though, which would build up reams and reams for the record.

If this program, or a substantial part of it, is removed from Congressional control it could literally run wild.

Mr. FORD?

AUTHORITY TO TRANSFER DEFENSE STOCKS AND SERVICES TO MILITARY ASSISTANCE PROGRAM

Mr. FORD. I could not agree with you more, Mr. Secretary, as to the essentiality of this program. I think my record has been in conformity with that viewpoint.

At the same time, I do not believe the Congress has failed to measure up to its responsibilities in any of these crises which have taken place. I do not believe, as we look back several years, that the executive branch has not had the tools to meet these several crises.

For example, without this section 510 the executive branch of the Government was able to meet the problem in the Congo with the dispatching of sufficient airlift capability and other aid and assistance.

The executive branch in 1958, I believe, was able to handle the problem in Lebanon without section 510. This is a little different, but it is somewhat the same—the Defense Department, upon orders from the executive branch, was able to provide whatever assistance

was needed when the horrible earthquakes in Chile took place. I cannot recall how much in the way of equipment and personnel we made available but it was substantial.

Certainly the Defense Department was able to handle the problem in Taiwan in 1958 without the benefit of section 510.

As I recall the procedure, after we sent missile units to Taiwan, after we sent additional ——— to Taiwan, when Congress reconvened a request was made in a supplemental or deficiency appropriations bill to provide the funds to make whole the Defense Department for this equipment which was sent out to meet this emergency.

All of this was done without section 510.

When Congress is in session, and it seems for 1961 and in ensuing years we will be in session at least 9 months, there is no problem in coming up to get authorizing and appropriating authority to meet any emergency as critical as the one I believe you have been describing.

When Congress is not in session I gather you are making the argument you do not have the flexibility. However, let us look at the facts. Congress this year may adjourn by Labor Day. We will certainly reconvene on January 3.

In that period of September, October, November, and December it is at the beginning of the fiscal year when the Defense Department and the ICA will have in the neighborhood of \$1,885 million for military assistance.

I think the facts would illustrate, based on past experience, that in that 4-month period you never obligate more than a third of the total military assistance obligational authority made available, so if a crisis does arise during that period in 1961, and if you get in the neighborhood of \$1,885 million, you are going to have ample obligational authority in the military assistance program to meet any crisis in Vietnam in the way of equipment. Would you not agree?

Secretary Rusk. The military assistance programs are scheduled rather precisely for a particular fiscal year. If we were suddenly to make large allocations to a country such as Vietnam, this could be done only by cutting deeply into programs of great importance in other countries.

Mr. Ford. That argument makes sense if you assume that when Congress returns in January it would not measure up to the crisis to replenish the funds that were diverted.

I cannot visualize any \$100 million additional equipment request for Vietnam in a 4-month period which would not precipitate the recall of Congress to meet the world situation; \$100 million in additional equipment to Vietnam is a fantastic amount to meet any crisis which would foreseeably arise. Would you not agree?

Secretary Rusk. If you had left out the exact figure I think I would agree. I would think, however, that in a real fighting situation \$100 million would not go very far and it would not itself represent a political crisis involving U.S. forces which would demand a recall of Congress.

Mr. Ford. But if you have to go to, say, \$150 million over and above what you are programing, or even \$200 million, that is \$200 million out of \$1,885 million, of which only one-third would have been obligated prior to January 3, so you have approximately \$1.2 billion or \$1.1 billion which would not have been obligated which in an

emergency could be obligated. I am certain based on the past that Congress when it convened, if it was not called into special session, would have made up that money almost overnight.

It bothers me that this additional flexibility, alleged flexibility, is requested when the record of the past in my judgment does not justify it.

Secretary RUSK. Mr. Ford, in order to be sure I understand you, may I ask this: Is it your point that the President as Commander in Chief can dispose of, or deploy, U.S. military forces to meet whatever emergency situation endangers the security of the United States, and that, in these situations, the Congress would expect to make up the deficiencies required?

Mr. FORD. No doubt about it. The clerk has just indicated they did that in Lebanon, they have done it in Taiwan, they have helped in Chile by the use of the emergency fund which the President has.

I do not know precisely how it was done in the Congo except the Air Force was ordered to dispatch a considerable number of aircraft for the airlift.

Actually we have vast flexibility. We have tremendous abilities to move in these crises, as evidenced and demonstrated over the past.

Why this new gimmick is essential is beyond me when you look at the record of what has transpired.

Mr. PASSMAN. And, too, we must not pass up the fact that the Congress also provided for these emergencies in the basic legislation in giving the President the right to transfer out of the economic program to the military program. At almost any time you have as much as \$5 billion of unexpended funds. It is rare, indeed, to get below that amount unexpended.

In addition, the Congress provided the contingency fund.

Year after year the military has overstated the needs for this program, and they have shipped out and obligated materials that were not needed. They did that in order to show that the funds had been obligated. Within the presence of President Eisenhower, at a time when we were about to be chastised, for what they termed ruining the program through proposed cuts, members of the committee had to go down to the White House and inform the President that these people had not given him the facts. Within 24 hours, \$538 million had lapsed, funds which they could not obligate and could not reserve.

There is no record that there has ever been an emergency for which funds have not been adequate to meet our responsibilities, even last year.

We had quite a controversy over the military program increase. And, at a subsequent date, after passage of the appropriation bill, certain funds were transferred from the military over to nonmilitary programs.

Mr. FORD. I agree to yield to the gentleman from Alabama.

Mr. ANDREWS. The argument for that flexibility assumes that by the 1st of January all of the new obligational authority for military assistance will have been obligated or used, in the amount of \$1,885 million.

## AMOUNT OF FUNDS REQUESTED FOR MILITARY AND ECONOMIC ASSISTANCE

Mr. CONTE. Mr. Secretary, initially, I certainly realize that the Government and the State Department do not create these crises. I imagine we will continue to have them and they will continually intensify in the degree of gravity.

As one deeply and sincerely interested in the foreign aid program, I think you will find, on the Republican side of the table, we supported increased funds for the military assistance program last year. I believe we tried to obtain \$2 billion in this particular part of the appropriations bill.

If you came to this committee with a forthright budget of \$2,285 million incorporating the \$400 million, I think you would receive a strong consideration from me and the other members on this side of the table.

However, it would seem on the surface that this is another administration attempt to placate the eggheads in Government who are against military assistance. What they are doing here is cutting down military assistance and at the same time sweeping this \$400 million under the carpet. While on the surface it looks good because on the ledger sheet the economic request appears as greater than the military.

I think if we need \$2,285 million for military assistance and if you came in here and asked for that figure, I think you would find that you would receive a great deal of sympathy from the majority of the Congress who agree with you that these are trying times. It may be South Vietnam today, Bolivia tomorrow, and Venezuela the day after. There will be many crises forthcoming in the next fiscal year.

Secretary RUSK. Thank you, Mr. Conte. The original figure put in on this was the figure of the Eisenhower administration, 1.6.

Mr. CONTE. 1.8.

Mr. FORD. 1.8.

Mr. PASSMAN. President Kennedy reduced it from \$1.8 billion to \$1.6 billion in the original estimate.

Secretary RUSK. I beg your pardon, 1.8.

Then, after looking at the fiscal and economic situations, the figure was reduced.

Still later, as our studies reached a more complete status with regard to particular crisis situations and our real needs, we came back with a somewhat larger figure, the 1.885.

I would like to add that those who have been working in the administration on military assistance have thought that perhaps we should use more, both from the political and military points of view.

On the other hand, there were some countries where perhaps the military had been emphasized more than might be wise over a long period of time. This is because the emphasis was so heavily on the military that the economic development of some countries had slowed down and was not taken as a primary objective. This made such countries susceptible to the kind of penetration which is difficult to deal with through straight military appropriations. Then there were one or two cases where the size of the Military Establishment was not big enough to cope with a major attack, while larger than was needed for lesser attacks. In such cases, the major attack could not be met except with the help of a great many allies. These cases are all questions of adjustment.

The \$1.885 billion gives us a basis for negotiating a series of agreements with governments about what our joint efforts will be for a particular fiscal year and these agreements will largely commit the \$1.885 billion. But that would leave us relatively little flexibility for the unexpected and sudden demands that we can almost surely anticipate, although we might not be able to predict them in particular cases in the course of the year.

#### CONTINGENCY FUND

Mr. CONTE. Of course, you are asking for an increase in the contingency fund of some \$350 million to take care of these flexibilities which will arise. We gave the Eisenhower administration \$150 million and you are requesting \$500 million.

Mr. BELL. \$250 million.

Mr. CONTE. You are asking for an increase of \$250 million for this particular purpose. I would rather see it there than see it hidden away in the Defense budget.

I know, because I have given at least 500 speeches on foreign aid all over the country, and I know that there is a segment of our society, the so-called eggheads, who do not feel we should have any military assistance, that it should all be economic aid.

It seems to me that the administration is trying to placate these individuals by seemingly appropriating less for military assistance while shoving it underneath the rug in some other part of the budget where it will not appear. By doing this it will not appear that there is an overbalance of military assistance as opposed to economic assistance. I do not think this is quite kosher.

Mr. PASSMAN. At the appropriate time I shall send to you, through Mr. Bell, if you wish to review it, my file documenting some of the exaggerations, and violations of agreements of the military with this committee.

I have to make a statement of fact because this is serious business.

I am sure my distinguished colleague, Mr. Ford, remembers the year when we were considering requests 3 days before the fiscal year would end. The military came to the subcommittee, my first year as chairman, in calendar 1955, with a proposal concerning a large sum of money, which was not needed for the program.

They said, "If you will permit the budget to reserve this sum, then we will let this sum lapse."

It sounded valid enough, and we bought the package.

Then, we received a letter to that effect, over the signature of the general.

All right, at 10 minutes after 6 p.m. on June 30, the then Director said in effect, "Disregard the letter. See if you cannot work up some kind of an excuse that we wrote this letter so the committee members would know what they agreed to among themselves. But reserve all the money."

From that day to this, I have been checking these people, and at the appropriate time the file, if you wish to receive it, will be available for you to study.

There was a case of a head of state who had in mind he wanted some of our fighter planes. They would scare the chiefs of some of the tribes.

He said, "I have to have them."

I forget how many modern fighters we made available. But, it was almost admitted that about the only use the country had for them was to keep the tribes in line.

This is no accusation, Mr. Secretary.

AUTHORITY TO TRANSFER DEFENSE STOCKS AND SERVICES TO THE MILITARY ASSISTANCE PROGRAM

However, I can foresee that under the proposed legislation you would have the vehicle for nullifying just about anything we should elect to do to bring about adjustments in the various programs. If you get this bill through then, technically, and I think we are in accord, the President could offset congressional decisions and actions through his emergency account.

If you had made the request for an increase in the military, and rested your case on that, we could establish that these people had outfoxed you and the committee, too. But you have increased it in every category.

You are about \$1,700 million over the previous year, so it is in every category that it is increased. Digging a ditch in some country, one that is not designed or planned, has very little to do with the security of this country. Yet the request for all this is up.

Mr. Andrews?

Mr. ANDREWS. I have no questions at this point, Mr. Chairman.

Mr. FORD. Mr. Secretary, when Mr. McNamara was here yesterday we discussed section 510 in the proposed authorization legislation. I pointed out to him the last sentence of the section which reads as follows:

Prompt notice of action taken under this subsection should be given to the Committees on Foreign Relations, Appropriations, and Armed Services of the Senate and the Speaker of the House.

He agreed that under that language no approval was necessary by any of the committees in the Congress for this action of taking stocks from the Defense Department for the benefit of the military assistance program.

In the military programs the Defense Department has a policy with the House and Senate Committees on Appropriations, that if there are any reprogramings, before such reprogramings of funds are made there has to be a submission of the reprogramming request and concurrence by the House and Senate Committees on Appropriations, and I believe now the Armed Services Committees of the House and Senate.

Secretary RUSK. This is under the regular defense bill?

Mr. FORD. The regular defense bill, Mr. Secretary.

Secretary McNamara agreed that this policy and this procedure were working well. In fact, it was just modified, to make it even more effective.

He has concurred that somewhat similar language should be effective under section 510. Would you agree that such a procedure would be a good change in this proviso?

Secretary RUSK. Mr. Ford, I would like to take that under advisement and inform the committee of my view.

I can tell you now that all we are trying to do is to get this job done. We would be glad to make an adjustment which will make it possible for the executive and the legislative to work in harmony on these matters. I think perhaps I should have a chance to consult with Secretary McNamara and with the Chief Executive on that particular point, but I will inform the committee promptly as to what our attitude on that would be.

Mr. FORD. It would be helpful for the committee to have you and Secretary McNamara work out some proposed language which would tend to conform with what he thought yesterday would be satisfactory, and we can take the language, review it, and act on it or recommend that the authorizing committee act on it.

Secretary RUSK. If you will forgive me for asking a question in the other direction.

Mr. FORD. Certainly.

Secretary RUSK. I want to be sure I understand the suggestion.

If the President should determine that it is vital to the security of the United States to use these sums, your thought would be that such a finding would be submitted to the committees and that the exercise of this authority would be subject to approval of the committees.

Mr. FORD. That is correct.

Secretary RUSK. Let me take that under advisement.

Mr. FORD. That is the kind and the type of procedure we use in reprogramming in the Defense Department. It has worked satisfactorily. There has been no disposition to hamstring the Department. The committees have promptly acted on such requests, and in my judgment, and I believe in the judgment of the members of the Defense Subcommittee, it has been very satisfactory in getting the job done and giving them the kind of flexibility that is needed when necessary.

Secretary RUSK. Mr. Chairman, may I have the courtesy of a moment to consult my colleagues in the Department of Defense?

Mr. PASSMAN. Yes, indeed.

(Discussion held off the record.)

Secretary RUSK. I will try to inform the committee promptly on Mr. Ford's question.

Mr. PASSMAN. You may wish to make a search of your records as to just what would be vital, and what would not be vital, in the event of an unusual emergency. You may find that you have ample funds which could be used.

For instance, regarding Japan, we were privileged to meet the distinguished Prime Minister of that friendly country a few days ago. He indicated that Japan was enjoying the greatest prosperity in the history of that country. Yet, we look in the justifications, and we see \$—— in this bill for Japan.

Then, there is reference to building a \$—— civil air terminal in Saudi Arabia even though the American Air Force has been ordered to quit using the airfield.

You might go through the bill and pick up \$200 million or \$300 million, which we are spending similarly. I certainly subscribe to the principle that we should live up to our commitments, but you might find that you could delay completing projects such as the one in Saudi Arabia, for example, which could rather readily be used against us.

I do not think that suggestion is without merit.

We were out in Spain recently, and we were told that one of the very expensive bases in Morocco, which we had previously abandoned, had Russian technicians and other Russian personnel on the base.

Is that the statement as you understood it, Mr. Rhodes?

Mr. RHODES. This was a base which we had built and had abandoned on the insistence of the Moroccan Government. There were Russian Mig airplanes and Russian technicians on this base which had been abandoned by us intact, while our own bases still occupied by us were within almost the same traffic pattern.

Mr. PASSMAN. It was a base we had actually built with our funds?

Mr. RHODES. Absolutely.

Mr. PASSMAN. They said for us to get out, and we did.

I wanted to indicate there are plenty of places you can pick up money, in the event of emergency.

Secretary RUSK. May I comment to the committee off the record on that last point?

Mr. PASSMAN. Yes.

(Discussion held off the record.)

#### LONG-TERM COMMITMENT AND "BACK DOOR" FINANCING REQUESTED OF THE CONGRESS

Mr. FORD. Mr. Secretary, I agree quite substantially with almost all of the statements in your prepared statement. Our differences as of the moment seem to be about some of the tools you want to use or which you feel necessary to accomplish the purpose.

On pages 12 and 13 of your prepared text, in part you state this:

In this era the authority to make long-term commitments to development is essential to the effective conduct of these relations.

Having an assurance for a reasonable period of the funds which will be available for long-term economic development \* \* \*.

\* \* \* the uncertainties of annual funding, whether this be by either authorizing or appropriation action, or both.

What is needed now is a commitment by the Congress.

We believe that 5 years is such a period.

Elsewhere throughout the statement you repeat that an assurance is needed from the Congress in order to make an effective program.

I have before me here a chart prepared by the Budget Division, Estimates Staff, Office of the Comptroller, International Cooperation Administration, dated February 12, 1961.

It shows that starting from 1948 through 1961 the executive branch of the Federal Government has requested in appropriations a total of \$66,837,300,000 for the mutual security program.

It also shows that the Congress has appropriated during this same period of time \$59,367,200,000.

The staff has figured out that relating the appropriation request to the amount appropriated by the Congress during this 14 or 15 year period that the Congress has made available 88 percent, almost 89 percent, of obligational authority requested.

Looking in the future you have to see what has happened in the past. It is my impression that an 88 to 89 percent batting average is good in the way of reasonable assurance. What would be your observation on that?

Secretary RUSK. Mr. Ford, I would certainly express my appreciation for the support which the Congress has given to these mutual security programs over the years. The problem is, I think, not in essence whether the Congress has been willing to back the specific commitments which we bring here each year, but how the United States should now proceed to get other countries to make a real effort in economic and social development over a period of time.

It is important for us to be able to go to them and say, "If you will get your own house in order, if you will make an effort over a period of years to get yourselves on the road to development, then we will be able to sit down and talk with you about the extent of American help in that effort over that period of time."

In turn we can go to other governments, chiefly in Europe, and say to them, "Here is their plan. Here is what we think we can reasonably do. We want you to do all that you can. You come in and you make commitments of this sort yourselves."

I think this is important, Mr. Congressman, because the United States cannot very well go to other governments and talk to them in long-range terms without having this very act affect the situation. If we encourage them, if we ask them to achieve certain standards and criteria, if we put pressure on them in the way of self-help it is then difficult for us to walk away from their situation because the funds are not available and leave everything as it was before. We have created an expectation. We have created a certain obligation because of the steps we are asking them to take. We would like to be able to go to these countries with the understanding of the Congress that this is what is happening, so that if they respond, we can respond. Therefore, we are asking here for a statement of the policy of the Congress with respect to this matter within the limits indicated in the bill.

Mr. FORD. Mr. Secretary, is not the best evidence of the congressional dedication to this program the fact that in a period of 14 years the Congress, whether Democratic or Republican President, whether Democratic or Republican Congress, has made available almost 89 percent of the money requested? What more assurance does "X" country or "Y" country need that our commitments will be forthcoming?

Secretary RUSK. I think it would be well for me to insert here, if I may, Mr. Chairman—

Mr. PASSMAN. Certainly, Mr. Secretary.

Secretary RUSK (continuing). A figure showing the percentage of those funds which were based upon annual programs. I think that is relevant and to the point, because over the years we have confined our commitments, by and large, to the limits of the annual appropriations. We have had some general discussions, but most of our discussions with other governments have to be subject to the acts of Congress.

(The following information was supplied later:)

#### ADVANCE COMMITMENTS

For the period of fiscal year 1957-61 advance commitments beyond 1 fiscal year for economic assistance subject to future appropriations totaled \$145 million while the actual obligation for economic assistance annual programs during this same period amounted to \$9.2 billion. The volume of advance commitments for this period is equal to 1½ percent of the total programs. In addition, during this period a major multiyear commitment was made of \$517 million and local currency to the Indus water project subject to availability of funds. Consultations with the Congress preceded this commitment.

In recent months forward commitments have been made to India, Pakistan, and Brazil subject to the availability of funds. The fiscal year 1962 request now pending includes funds to cover these commitments. However, in one case, India, the commitment extends through fiscal year 1963.

Mr. FORD. I think the discussion yesterday tended to indicate that where we have made these commitments, India for one, our country has without exception honored those commitments and the Congress has provided funds to take care of the obligation.

Does the Secretary have an answer to that?

Secretary RUSK. Even in those situations there is, I think, a degree of embarrassment between the Congress and the Executive. If we were to go out and negotiate with several countries significant commitments for 5-year development programs, without having had assurances from Congress that this also is congressional policy, then—at least it has been my experience in earlier days and I have not been here in recent years—there is dissatisfaction in the Congress in being presented with that sort of commitment.

Mr. FORD. Then you are faced with this statement in your own prepared text, and I quote:

I know it is said that its purpose—  
the arrangement is the purpose—

is to avoid coming to this committee for funds for economic assistance. This is not the purpose.

In effect, you are telling us that under the new proposed arrangement we still have the same authority. Are you not?

Secretary RUSK. I am saying what we would like to get is a statement of policy by both the Congress and the Executive which puts the United States in position to enter into commitments on long-term development programs.

Mr. CONTE. Will the gentleman yield there?

Mr. PASSMAN. Will you please yield to me first? I must, of necessity, protect my own line of questioning on yesterday, by indicating firmly for the record that I know of no exceptions where your people have appeared before our committee that they did not say substantially this: After careful planning, this is what the project will cost, this is the year in which it will be completed, and this is the amount of money required for this year's commitment.

The record is loaded with testimony that you have projects which will be completed in 1963 or 1968, and some of them going to 1975. I specifically asked the question yesterday, Where have we fallen down and caused you to have to cancel a contract?

Now, I want to ask, Mr. Secretary, do you consider the military aid as important as the economic part of this mutual security program?

Secretary RUSK. I do indeed, sir, because we are using the military assistance program only where we feel it is of vital necessity to the security of the free world.

Mr. PASSMAN. The military would be considered just as important a facet of the foreign aid program as economic assistance?

Secretary RUSK. Yes, sir.

Mr. PASSMAN. Would you, in your considered judgment, feel that the military is more complicated or less complicated, when it comes to

working out programs for the countries? Would it require more time or less time to firm up a policy for a military aid program than for an economic aid program?

Secretary RUSK. Mr. Chairman, I would want to leave my colleagues in the Department of Defense free to express their own view on that.

Mr. PASSMAN. Certainly.

Secretary RUSK. My own feeling is that the arrangement of a military assistance program with a foreign government is in many respects much simpler than an economic assistance program.

Mr. PASSMAN. You do have a 5-year plan for the military aid program?

Secretary RUSK. It is on a 5-year planning basis; yes, sir.

Mr. PASSMAN. And they are asking for their appropriation on an annual basis?

Secretary RUSK. Yes, sir.

Mr. PASSMAN. Thank you.

Mr. Ford has the floor.

Mr. FORD. I yield to Mr. Conte.

Mr. CONTE. Mr. Ford was pursuing a very interesting point, Mr. Secretary. You answered by saying it is very difficult to discuss a long-range plan for economic and social progress with these governments without forehand knowledge of the definite policy of the Congress and of the executive branch. Why would you not have that policy of the executive branch and the Congress if we passed a 5-year authorization bill with annual appropriations, substantiated by the statistics Mr. Ford has given you here on what the Congress has appropriated?

Secretary RUSK. Mr. Conte, by the time we get through with these hearings, if I have not already been able to do it myself, I think what we are trying to do will be clear to the committee and the Congress. What we are after here is the ability to go out and negotiate with other governments; and in the case of a particular government, such as Argentina, it may involve negotiations with half a dozen countries.

We are asking that we be put in a position where we can negotiate responsibly with other governments about their own multiyear development programs. This proposal is, in our judgment, the best way that we can see to bring that about. There have been other suggestions, and I can assure you that we will be discussing with the Congress these other ways of achieving the same result. However, I myself do not feel that I ought to comment specifically on the suggestion that you have made without careful study in the executive branch.

Mr. CONTE. I can appreciate your problem, and I think you make an excellent point. I think you must be fortified with some expression by the legislative branch of the Government as well as the executive in order to carry out this long-range program. I think an authorization bill for 5 years would give you that armament and that ammunition you need.

Mr. Dillon's trip to Bogotá is a prime example. At that time the Congress passed an authorization bill for half a billion dollars for social progress in Latin America. He was able to get 19 of the Latin American countries to sign the Act of Bogotá based upon this author-

ization bill. I think this is one of the strongest arguments you could use for an authorization bill with an annual appropriation.

I think what Mr. Ford has pointed out is also evidence of the fact that the Congress is responsible and it has, we should note, passed 89 percent of the appropriations requested by the executive branch of the Government.

So you have two levers here. One, you have an authorization bill showing the long-term plan for 5 years, and the other, the past performance of the Appropriations Committees.

Secretary Rusk. The essence of the problem is that the executive and the Congress agree as to how we can conduct ourselves on this problem over a period of years. The chairman was kind enough to intimate we might have a chance to discuss some of these problems on another occasion. I can assure you that we will look at this problem seriously in terms of the comments that have been made by this committee and other committees, and we will come back with our considered judgment for your further examination.

Mr. Ford. Mr. Secretary, this proposal for long-term financing places in a difficult position people like myself and others who have supported to the hilt the mutual security program. We want to support mutual security, but I, for one, cannot do so if this kind of financing is to be included. In your own statement you indicate that really it is a matter of semantics as to how we are to handle this program. This back-door financing gimmick is a matter of deep principle with me. As long as it is a matter of principle to so many people who believe in the program, it is unwise strategy on the part of the executive branch of the Government to lose a lot of friends for the program when friends sometimes are hard to come by.

Secretary Rusk. That is a very important statement, Mr. Ford.

Mr. Ford. There is one other point you have made. You asked, "How can we go to these other countries that are going to help us assist underdeveloped countries and get their cooperation unless we can have this long-term assurance?" I am looking at the India Economic Newsletter of May 1961. They are talking here about a 5-year program for India. The page lists the various other countries that I understand have committed themselves or that are indicating cooperation with us to aid and assist India. The countries are Canada, France, Germany, Japan, and the United Kingdom, plus ourselves.

France has been very generously treated in the mutual security program over a long period of time, and is still receiving military assistance. West Germany received, up to several years ago, considerable military assistance, and even today the free city of Berlin is getting some economic assistance. Japan has been a beneficiary of our economic assistance and military aid. The United Kingdom ever since the inception of the program has been a beneficiary of mutual security.

I cannot understand how any of these countries would have the feeling that we would not live up to our financial commitments for a program of this sort. Can you believe they would not have faith in our 5-year program based on the past record of the Congress of helping them and helping a good many other countries?

Secretary Rusk. I am sure that is right in the case of India. Indeed, I think as far as these particular countries are concerned, they would look upon commitments from our executive branch as being

serious insofar as the executive branch is concerned. They would make their own judgment about their own experience with actions of the Congress in these situations, but at the same time they would recognize this sort of commitment is automatically a first call on whatever funds are appropriated by the Congress.

What we have in mind is not this, to me, very persuasive case of India, but an agreement between the Congress and the Executive as to how we proceed in the next 5 years in comparable situations in other countries. In other words, within what limits, within what order of magnitude, on what basis of assurance, in what negotiating position, are we to be? This is a problem.

Quite frankly, we are not concerned about India because of the past experience with the Congress and the general attitude that we knew we would find there.

Mr. PASSMAN. If the gentleman will yield. What countries are you worried about, Mr. Secretary?

Secretary RUSK. It is not particular countries by name, but how far are we to go down this trail and on what basis? The Executive would not feel free, Mr. Chairman, to multiply this case of India by six or seven other countries with the same reliance that we felt we had in the case of India. I think we need a joint policy by the Congress and the Executive as to how the United States is to move toward this kind of problem involving long-term economic development.

Mr. FORD. I appreciate your comments, Mr. Secretary. I just do not agree with this tool that the executive branch has requested. I think it is unwise. I think it is unnecessary. As I said a minute ago, I think it places people like myself, who believe in the essentiality of the program, in a very difficult position. I feel very strongly about the principle of this backdoor financing. According to your statement, it really is a matter of semantics. So I hope and trust that the executive branch will reconsider its position on this aspect of the program.

I have some other questions, Mr. Chairman, about financing of the Congo operation, but I will defer that until sometime later.

Mr. PASSMAN. Mr. Rhodes?

Mr. RHODES. Mr. Secretary, do I gather that the administration would like to negotiate with almost any nation on the globe without clearing the negotiation with the Congress first?

Secretary RUSK. The AID program will be discussed regularly with the congressional committees, during which any plans for long-term aid will, of course, themselves be discussed. These long-term economic plans develop over a period of time. For example, we would like to be able to approach certain countries in Latin America that have reached the point where they ought to be able to take off on real development, if they would go about it somewhat more systematically, and if we can get those countries to think about their own capacity for development.

Mr. RHODES. Is there anything to inhibit your doing that at the present time?

Secretary RUSK. I think the inhibition, Mr. Rhodes, is if we go to these countries and talk to them in these terms, and then if we find for one reason or another we have to walk away from them, we have set ourselves back rather than having moved ourselves ahead.

Mr. RHODES. Mr. Secretary, will you give the committee any specific instances since this program began of any time when the United States has found itself in that position because of the failure of Congress to follow through on negotiations started by the executive department?

Secretary RUSK. I think, sir, the problem is not what has happened with respect to specific commitments in the past, but rather to have a common understanding between the Executive and the Congress which will enable us to move on a number of these situations in the future within limits of magnitude of commitments that we know we can discuss.

Mr. RHODES. You are not asking for common understanding. You are asking for a blank check. You are asking for a 5-year authorization for back-door spending which effectively removes any congressional control except the control which any Congress has to repeal a law which it has previously enacted. This is not easy, ever. In this instance it is even more difficult, considering the fact that if the Congress should pass a law effecting such a repeal and the Executive desired to veto the act repealing the previous act, it would take a two-thirds majority to override the veto. So, for all practical purposes, control would be gone.

I repeat, I think you are asking, not for a meeting of minds with Congress, but for a blank check.

Secretary RUSK. It is true that we would expect to discuss these matters with other governments in a way that would not involve the specific participation of the Congress in the discussions. What we are asking for, though, is a decision by the Congress, on its own account, that it would be willing for the United States to move to the support of long-range development programs up to this order of magnitude. We are asking for your decision, not abrogating your right of decision.

Mr. RHODES. May I respectfully suggest, Mr. Secretary, there is a pattern for doing this. One is the sense of Congress, like a resolution which we passed at the time of the trouble in the Taiwan Straits and the resolution which was passed about the time of the Bogotá Conference, which was an authorization for the appropriation of funds in furtherance of the agreements made at the Bogotá Conference—another method of doing just what you state you desire. My point is that you are saying you want one thing, but are really asking for something entirely different, which I think is completely unconscionable.

I could not agree with Mr. Ford more. I do not think my record of support of the program has been as consistent as his, and I am sure I do not feel as strongly about it as he does. In fact, I probably do not feel any more strongly about it than the average Member of Congress, if as strong. Even so, what support I have given in the past certainly would have to be diluted very considerably by the continuance by the administration of such tactics as this.

I am bothered, Mr. Secretary, when I compare this approach with other approaches that the administration has made. For instance, the housing bill. We had back-door spending requested there on a massive basis. The Congress was asked in the farm bill to yield its power, subject only to a veto on the part of Congress. We have had too many instances in this administration so far, I think, where Con-

gress has been asked to sign blank checks. To me, this is a very disturbing approach. I did not wish to bring in other instances except as a matter of illustration of what appears to me—and I fear it—to be an attitude on the part for certain people in the administration that Congress is a body to be bypassed and treated as lightly as possible. I know this is not your feeling at all, but it disturbs me.

Secretary RUSK. I appreciate your saying that.

Mr. PASSMAN. Will the gentleman yield?

#### ANNUAL LIMIT ON LONG-TERM BORROWING AUTHORITY

In all probability you would ask this question, Mr. Rhodes, but I want to be sure it is asked.

Of the total amount of borrowing authority that you are requesting, are you asking the committees of the Congress to establish the percentage or total you may spend each year or, at the discretion of the President, would the executive branch have the right to obligate as much as it should see fit, say, in the first or second year?

Secretary RUSK. We are asking that the funds be made available on the basis of \$900 million the first year and \$1.6 billion for the subsequent 4 years. Those limits are, of course, subject to change if the Congress feels that it must change them.

Mr. PASSMAN. But under provisions of the proposed legislation, would the President have the right to raise or lower the amount from year to year?

Secretary RUSK. Not the lending authority; no, sir.

Mr. PASSMAN. It is fixed so that the executive branch could borrow only a certain amount each year?

Secretary RUSK. That is correct, sir.

Mr. PASSMAN. Mr. Rhodes?

Mr. RHODES. I yield to Mr. Conte.

Mr. CONTE. Mr. Secretary, I want to leave this by congratulating the administration on the appointment of Dean Rusk as Secretary of State. I have full confidence that he will do very well in this difficult job in the many crises that we have before us today. I am certainly pleased that we have a man of Dean Rusk's caliber at the helm of the State Department.

Secretary RUSK. Thank you, Mr. Conte.

Mr. RHODES. Mr. Chairman, I associate myself with the words of Mr. Conte concerning you, Mr. Secretary. The way you have handled yourself since you have been in this very difficult position gives us all much more encouragement than we might otherwise feel.

Mr. PASSMAN. May I, too, so indicate again at this point.

Secretary RUSK. Thank you, gentlemen.

Mr. FORD. I concur in the chairman's comment.

#### AUTHORIZATION FOR TRANSFER OF FUNDS

Mr. RHODES. Mr. Secretary, in the bill which I have before me, H.R. 7372, on page 29, beginning with line 18, it says:

SEC. 510. SPECIAL AUTHORITY. (a) The President may if he determines it to be vital to the security of the United States \* \* \*

This refers, of course, to the \$400 million. We call it the additional contingency fund. I wish also to compare this with the wording of the mutual security program legislation, section 451, setting up the contingency fund. This gives the conditions under which the President may use the contingency fund.

when the President determines that such use is important to the security of the United States.

Comparing that with the provisions of this bill, H.R. 7372, in the bill it says:

If he determines it to be vital to the security of the United States.

The contingency fund provision said:

If such use is important to the security of the United States.

Would you care to comment on the significance in the use of the different words, "vital" and "important"?

Secretary RUSK. There is a difference, Mr. Rhodes, although it may sound as though these are words of art in the lingo of the Government. When we are discussing military and security problems, we try to reserve the word "vital" to those things which are of critical urgency to the security position of the United States, in an almost direct operational sense. There are certain bases, there are certain positions of strength, which are vital in the sense that our security would be deeply injured and impaired if they were not held or if they were not in good order. This word, as I say, tends to be a word of art in the military examination of certain situations. This word is deliberately used here because we had in mind the necessity for the President to move promptly, and sometimes massively, to reinforce or strengthen a situation where there is a very serious threat and real danger.

I am impressed with your colleague's remark about the powers of the Commander in Chief here. I intend to discuss this with Secretary McNamara to see how that bears upon this particular section of the bill. It is that level of urgency that we are talking about in this particular section. This is not a routine section. This is not intended as routine additional money. This is intended literally for the almost overriding emergency situation where we have to put forth large and expensive supplies in a hurry to deal with a critical situation.

Mr. RHODES. Mr. Secretary, I hate to interrupt, but I think you might also consider the point made by Mr. Ford concerning the re-programming approach.

Secretary RUSK. Yes; we intend to go into this.

Mr. RHODES. This might be a practical solution to what I recognize is a problem. We do not intend to minimize the problem. We feel, like you, that it should be solved in the best possible way. Frankly, we are worried about contingency funds. As you can see, if we were to give this \$400 million and the \$500 million requested, that is almost a billion dollars of contingency funds, which I think is more than any responsible Congress should provide under any conditions that I can imagine.

Secretary RUSK. On the contingency funds, I must say that I am deeply impressed with the uncertainties of the situation in which we find ourselves. Many new, independent countries are coming into being. There is pressure by the Soviet bloc all over the world. Quite

frankly, gentlemen, it will be difficult to program in advance. The purpose of the presentation to Congress is an effort to be sure of commitments we are being called upon to make in the course of a given year. Again, at the moment, I am not talking about specific parts of the bill. I am talking about the nature of the problems confronting you and us on both sides of the Government. We must have flexibility so that we will not be forced to delay until we can come back and reprogram, because by that time a situation may have moved out from under us. It is that kind of a problem that I think both you and we must grapple with to try to find the right answer.

Mr. RHODES. I agree with you.

Secretary RUSK. There is one other thing that to me is very impressive.

(Discussion off the record.)

Mr. RHODES. Mr. Secretary, I might suggest, as Mr. Conte did, that perhaps the place for flexibility is in the authorization process rather than the appropriation process. We—I mean the Congress and the administration, also—have had very little difficulty in meeting a situation which involves the appropriation of funds if the situation was indeed one which should be met. I do not think there is any doubt that the Appropriations Committee can move just as rapidly as necessary in the event of requirements which are envisaged by the \$400 million contingency fund.

I think also Mr. Ford's analysis of the situation as it refers to your appropriation and the speed with which it is obligated is something which should be taken to heart. In other words, I think when you study the record, as I am sure you will, you may come to the conclusion that this is something which requires more study than perhaps it has received at the present time.

Mr. PASSMAN. The Latin American program demonstrated that when the President actually needs help, the Appropriations Committees and the Congress respond promptly. We were in there within a matter of days in getting out just what was requested.

Secretary RUSK. We are deeply grateful for that, Mr. Chairman.

#### MERGER OF DEVELOPMENT LOAN FUND OPERATIONS WITH ICA

Mr. RHODES. I am interested in the plans for the Development Loan Fund, Mr. Secretary. Is it now intended to merge the Development Loan Fund with the ICA so it will make only dollar loans and not loans repayable in the currency of the borrower?

Secretary RUSK. That is the present plan; yes, sir.

Mr. RHODES. Will there be a complete merger so the identity of the DLF will disappear?

Secretary RUSK. The organization of the new aid administration will contain a loan group. It will be the Office of Development Financing. It will work out loans for the approval of the Development Loan Committee, which will be an interdepartmental committee working directly with the Administrator.

Mr. RHODES. Will this take over all the loan functions formerly in DLF and also in ICA?

Secretary RUSK. That is correct, sir.

Mr. RHODES. So no loans will be made in the currency of the borrower in the future?

Secretary RUSK. Only in connection with the food for peace program.

Mr. BELL. They are not prohibited, except the money sought for borrowing authority could not be used. However, the moneys under supporting assistance, for example, might be made in the form of loans repayable in local currency.

#### FOREIGN CURRENCY EXPENDITURES IN 1962

Mr. RHODES. This brings me to another point, Mr. Secretary. In addition to the funds requested, how much in local currencies do you plan to spend in this next fiscal year?

Secretary RUSK. May we supply that, sir?

(The information requested follows:)

#### FOREIGN CURRENCIES

It is estimated that the equivalent of \$1,120.4 million in U.S.-owned foreign currencies, primarily resulting from the sales of surplus agricultural commodities and \$819.8 million in country-owned foreign currencies (counterpart) will be expended during fiscal year 1962 on country aid programs.

#### MEANING OF HUMAN DIGNITY

Mr. RHODES. I have just one other question. Perhaps you would call it a question of semantics, but it interests me. On page 3 of your statement, the second paragraph, you state:

If this is the Communist objective, what is ours? It is a world of human dignity, peace, and freedom.

I am interested in the use of this word "dignity." We have heard it used by people from the State Department for several years, regardless of the administration in power. What is the connotation of this word "dignity"?

Secretary RUSK. In the background of political discussion, this idea of human dignity refers to the notion of the status of the individual. For about 2,000 years, there has been a discourse turning around the political consequences of the nature of man. Our own concept of freedom, of individual liberty, and of constitutional guarantees, is a part of that 2,000-year discourse. It deals with the individual as a citizen, protected against the use of raw power for arbitrary or unjust purposes. I think it is central to our own Bill of Rights. It is central to our notions of constitutional government. I think it is an important idea because it also is one of the threads which tie us with people in all parts of the world.

If I could illustrate from a private experience: For years I was with a private foundation which has spent the last half century in 100 different countries and territories. There has never been any time wasted between representatives of such an organization and people in other countries about what their basic purposes were. You do not find people who would rather be hungry than fed, or sick than healthy, or who do not want to bring up their family with some assurance for the future, or who do not want to be able to predict what is going to happen tomorrow morning in their relations with raw power, with government. It is this concept of the man as the starting point in our political arrangement that seems to me to be the essence of the notion of human dignity.

Mr. RHODES. Mr. Secretary, I would not change that statement one bit when it comes out. That is as fine a statement of the meaning of human dignity as I have ever heard. I congratulate you.

Mr. PASSMAN. Have you other questions, Mr. Ford?  
(Off the record.)

#### CONGO DEFENSE EXPENSES

Mr. FORD. Mr. Secretary, I have been disturbed by what appears to be an effort on the part of some people in the State Department to sweep under the rug certain charges, legitimate costs of various agencies of the Federal Government, primarily the Defense Department, related to the Congo operation. As you know, the Defense Department has provided substantial assistance in the way of airlift and related matters for the U.N. forces in the Congo. I believe about \$22 million in bills has been submitted by the Defense Department to the State Department for subsequent resubmission to the United Nations as our out-of-pocket expenses involved in this.

Earlier this year, one bill for about \$10 million was submitted by the Defense Department and paid by the State Department to the Defense Department. The remaining bill of about \$12 million was unpaid for some time. It may now have been paid to the Defense Department. I have some reason to believe that the State Department told the Defense Department, "Just don't submit it." I do not know whether that is accurate, but that information came to me from reasonably reliable sources.

What concerns me is that if the Defense Department does not submit a bill and assumes the cost itself, then the State Department does not have to submit this to the United Nations and our Government's problem of handling the problem under section 262(b) of title 22 is somewhat easier. That is the proviso which says that the United States cannot pay more than 33 $\frac{1}{3}$  percent of the budget of any international organization:

*Provided, however,* That in exceptional circumstances necessitating a contribution by the United States in excess of 33 $\frac{1}{3}$  percent of the budget, a commitment requiring U.S. appropriation in larger proportion may be made after consultation by the U.S. representative with the Committee on Appropriations of the Senate and the House of Representatives.

Whatever our costs are—and I mean all of them—they ought to be submitted to the United Nations. It bothers me that an effort is made by one means or another to sweep some of these things under the rug because the Department does not want to face up to this problem of what our true costs are and the problem of getting around the one-third proviso in this statute.

I cannot believe you would be a part of that. I hope none of the responsible people in the Department are a part of any such effort.

Do you want to indicate the Department's view so we have the record absolutely clear in that regard?

Secretary RUSK. I would appreciate the chance to file a statement on this for the record, but let me comment now in advance.

Mr. PASSMAN. Without objection, the statement will be filed.

(The statement supplied follows:)

U.N. CONGO DEFENSE EXPENSES

The Department of Defense has furnished support to the United Nations operation in the Congo since the inception of the operation and continues to do so. The total cost of this support was calculated on June 30, 1961, at \$26,639,718.07.

The United States waived the costs of the initial airlift of troops and supplies to the Congo, and the total cost the organization was liable for was thus reduced by \$10,317,621.53. An additional 563,023 of costs connected with the emergency airlift of food supplies to the Congo has also been waived. Reimbursement to the Defense Department for these amounts has been authorized from fiscal year 1961 mutual security contingency funds. The disposition of additional costs of the emergency food lift totaling \$160,008.87 is pending.

In all other cases in which the U.S. military departments assist the United Nations operation in the Congo at the request of the United Nations, the Department of Defense bills the United Nations for the cost of the reimbursable supplies, equipment, and services provided. These bills are forwarded by the Department of State to the United Nations with a request that payment be made to the Department of the Air Force in its capacity as executive agent of the Department of Defense in furnishing U.S. military assistance to the United Nations in its operation in the Congo. The Department of State has forwarded to the United Nations, with a request for payments, bills totaling approximately \$15.6 million covering the cost of reimbursable supplies, equipment, and services furnished the United Nations in the Congo operation by the Department of Defense.

As of June 30, 1961, the United Nations had not paid the Department of Defense for any portion of the costs for which reimbursement had been requested. However, as in the case of the United Nations Emergency Force (UNEF) and the United Nations Observer Group in Lebanon (UNOGIL), for which the United Nations has been making payments to the Department of Defense for military assistance rendered at the request of the United Nations, the United Nations has budgeted for the cost of assistance rendered to it by the United States and by other countries and will make those payments as soon as the organization's cash position makes this possible.

Following is a summary of the support furnished by the U.S. military departments to the United Nations operation in the Congo, showing services for which costs had been calculated as of June 30, 1961.

*Support furnished by U.S. military departments to the United Nations operation in the Congo*

Nature of support	Amount	Status as of June 30, 1961
Initial airlift of United Nations troops and equipment to the Congo.	\$10,317,621.53	No bill to U.N., Defense reimbursed from 1961 mutual security contingency funds on Apr. 27, 1961.
Emergency airlift of food <sup>1</sup> .....	562,023.00	No bill to U.N., Defense being reimbursed from fiscal year 1961 mutual security contingency funds.
Flour in July 1960.....	(320,790.00)	
Famine relief, January 1961.....	(241,233.00)	
Supplies, equipment, and services furnished subsequent to the initial airlift.	15,600,064.67	Bills submitted to the U.N. with request for payment.

<sup>1</sup> An additional \$160,008.87, representing costs of the airlift for famine relief in February, is still pending disposition.

Secretary Rusk. This particular problem has not come to my attention. I know my own relations with Secretary McNamara on problems of this sort are in first-class running order. I do think that where we have out-of-pocket costs for special services of this sort, we should disclose them candidly and face the problem such as the one that you have pointed to about the 33 $\frac{1}{3}$ -percent limitation.

I would not, either as a matter of good practice or for more tangible considerations, wish to conceal a thing of this sort from the Congress.

We have already—I am not sure this is the expression, but we have already exceeded this 33 $\frac{1}{3}$  percent.

We have got to argue the necessity of this point in any event. I see, myself, no reason for not making a full disclosure.

Mr. FORD. I could not agree with you more and I think it makes for better relationships with the Congress if we make a full disclosure. I am convinced that our bargaining position in the U.N. is far better if we show our true costs. Then we can expose the lack of support by the Soviet Union and others for the U.N. if they do not pay up.

Secretary RUSK. Since there may be some hidden international political problems in this one, that I am not aware of at the moment, let me submit a statement in answer to your question, sir.

Mr. FORD. I would appreciate it and would you indicate after you have checked the facts what payments the State Department has made to the Defense Department, the dates and the amounts, and also what submissions have been made by the State Department to the U.N. as our costs involved in this operation?

Secretary RUSK. I would be happy to.

Mr. RHODES. May I ask a question?

Mr. PASSMAN. Yes.

(Discussion off the record.)

Mr. PASSMAN. Mr. Secretary, I feel better about some parts of the program than I would otherwise because of the knowledge that you will have much of the responsibility for the manner in which it is operated. I am sure that all members of this subcommittee appreciate the forthright statements you have made and your answers to the complicated and complex questions.

#### QUESTION OF LESS CONGRESSIONAL CONTROL UNDER LONG-TERM COMMITMENT PROPOSAL

Now, however, I wish to ask again, if the proposed bill is approved by the Congress as requested, will the Congress have more or less annual control over the expenditures and the policy?

Secretary RUSK. As a matter of the law and the Constitution, it would have the same control. However, I would be less than candid if I did not say that the exercise of that control by the Congress on an annual basis would be a more serious step in terms of our commitments and relations with other governments than would be true under the present arrangement.

We are asking you to give us the right to commit you over this longer period. You can as a matter of law and the Constitution reject that.

I will also say, Mr. Chairman, that I would hope that you would not underestimate the influence of this committee in the way in which these aid programs are handled.

We shall be here regularly from time to time, talking about the aid programs and presenting reports. Members of the committee will be observing the program in operation.

Mr. PASSMAN. Could I read into your reply an implication that the Appropriations Committees and the Congress would have less control? The question will be asked, and I must, of necessity, give a factual answer.

The Congress would at least to some extent be yielding control to the executive branch by the process you have requested if it is obtained; would it not?

Secretary RUSK. I believe my distinguished colleague, the Secretary of the Treasury, put it the other day that this would be shifting the burden of proof. In other words, if you were to use your continuing legislative authority to cancel the long-term aspect of the program, in the middle of commitments which we have made, I am sure the Congress would want to do so only for the most serious reasons.

Mr. PASSMAN. I am afraid I would never be able to answer the question upon the basis of the information you have given us. If we were to have the same degree of control in the committee and the Congress, then, of course, there would not be any reason on your part for changing the present system of obtaining your funds.

Would I be correct in assuming that the Congress, or the Appropriations Committees and the Congress, actually would exercise less immediate control over the purse strings as it would apply to this program under the plan you are requesting?

Secretary RUSK. Mr. Chairman, I do not want to appear to be evasive, particularly after your very kind remark about forthright replies, but what we are asking is for you to give us an ability to commit the committee. Now, as a matter of law you can reject those commitments, but as a matter of policy, and taking into account the honorable obligations of the United States, we hope you would not exercise that legislative authority.

Mr. PASSMAN. That procedure would result in the committee having less control, would it not?

You would not come before this committee for a review of your request annually, would you?

Secretary RUSK. I am not sure these are the right words, but I would think politically in the field of policy, yes; in the field of law, no.

Mr. PASSMAN. If you want to put it on a technical basis, you would not appear before this committee annually to review your requests for funds?

Secretary RUSK. We will be here for annual appropriations of course, and we will discuss out thoroughly, as I am sure the committee would expect us to do, the lending program as well as the other programs.

Mr. PASSMAN. But you would not come before the committee with the request for an appropriation for the programs for which you are asking authority to borrow from the Treasury.

Secretary RUSK. We will present those programs but on the basis of detailed appropriations we would—

Mr. PASSMAN. To whom will you present the programs?

Secretary RUSK. The Appropriations Committee, under the Government Corporation Control Act, would have an item in its budget dealing with this lending authority. This committee would handle that. At that stage you could, of course, have an entire review of the program and impose any ceiling you wanted.

Mr. PASSMAN. If you have committed the full \$900 million, then, of course, the committee could not, regardless of its deliberations, make any reductions; could it?

Secretary RUSK. If we had committed it we would hope the committee would not make any reductions.

Mr. PASSMAN. I know you hope it would not; but, actually, we would not then have the right to make reductions, if you had committed it?

Secretary RUSK. I think you would not.

Mr. PASSMAN. I am trying to understand it. You would be bound to have an advantage of that nature. Otherwise, you would not ask for the change in the legislation. It would positively take the eyes of the Congress off at least some of the details of the allocations in the programs.

Secretary RUSK. Mr. Chairman, it is not that we want to take the eyes of Congress off it; it is that we want the Congress to put us in position which will permit us to make these long-range commitments on behalf of the United States.

Mr. PASSMAN. Which the Congress cannot reduce, after they have been made. It would take it out of our hands, in the annual review such as we have it today.

Secretary RUSK. We would not expect that the Congress would—

Mr. PASSMAN. Exercise its technical right?

Secretary RUSK. Exercise its discretion on these lending commitments after they had been made.

Mr. PASSMAN. We would have a technical right to do it, but we would waive the right of examination before you made the commitment; is that the way it would be?

Mr. BELL. Under the Government Corporation Control Act we are required to provide to the Congress legislation to make funds available for expenditures under this proposal.

Mr. PASSMAN. Then, why do you want to change it, unless you would have an advantage that does not now exist? I do not want to quarrel about this, but I have got to understand it. You are familiar with it, I am sure, Mr. Bell. You have dealt with the committee in the past. Under the proposed legislation, you could, if you get the legislation through the Congress, obligate those funds prior to the time you come before the committee; is that correct?

Mr. BELL. If we were given the legislative authority sought, we would be in position to make commitments to obligate funds in the amounts specified by the legislation.

Mr. PASSMAN. Certainly, that is understood. There is no use to complicate it with a lot of words. We are dealing specifically with the principle, not the amount. Whatever amount the Congress authorizes you would borrow from the Treasury. That amount of money could be obligated prior to any review by this committee. It is either yes or no. You have the answer. What is it?

Mr. BELL. The answer is "Yes."

Mr. PASSMAN. The answer is "Yes"; is that correct?

Mr. BELL. I am not sure what the effect of the Government corporation control legislation is.

Mr. PASSMAN. If you do not know the answer to that, I do not know why you are asking for the legislation.

Secretary RUSK. Mr. Chairman, that seems to be quite a penetrating question because we do not have complete unanimity among us as to exactly how we reply. May I write you a letter on that?

Mr. PASSMAN. Could we not accept Mr. Bell's reply? This is serious business. Your answer is that it would be "yes"; is that correct?

Secretary RUSK. May I exercise my prerogative?

Mr. PASSMAN. I want the gentleman's answer. He has been before the committee for years. Is there anything wrong in getting his answer?

Mr. BELL. My answer is I am uncertain.

Mr. PASSMAN. Did you not a moment ago say "yes"?

Mr. BELL. I said I thought the answer was yes.

Mr. FORD. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Bell, I have very high regard for you. Certainly it was not my purpose to draw you out in this, but we are entitled to answers. When I asked the question whether under the processes proposed, if approved, you could obligate the funds without the committee reviewing the programs prior to the obligation, you said finally that you thought, yes, that was so; but later you were in doubt, and the distinguished Secretary appears to be in doubt. Therefore, I will say that, as far reaching as this program is, if you are in doubt as to the mechanics, that fact itself should, in my opinion, defeat the request and resolve the doubt.

Mr. RHODES. The way I understand your question, I do not see how there could be any doubt about it, Mr. Secretary.

Secretary RUSK. Mr. Chairman, I think this was a question that turned on the difference between the policy of the Congress and its legislative authority. I did not myself want to get those two mixed up.

Mr. PASSMAN. I was dealing with the second part of it: If the Congress gave you the authorization that you asked for, and the right to borrow money from the Treasury, could you obligate those funds annually without coming back to the Appropriations Committee for a review and approval before you obligated them? That was the question. The answer should be either yes or no.

Secretary RUSK. These funds will be in the annual budget submitted by the President.

Mr. PASSMAN. I understand that, but can you obligate these funds if you get the right to borrow from the Treasury? Can you obligate those funds annually, without this committee first having a review and the right to reduce the amount which you intended to obligate, or would you have the right to obligate without a review of this committee?

Mr. RHODES. They will be in the budget but they will be in as a debt transaction.

Mr. PASSMAN. Of course, the answer is obvious. I can answer for you, if you want me to do so. However, I did not think I should answer the question.

Secretary RUSK. Mr. Chairman, Secretary Dillon will be here to talk about it. Let me consult with him because I do not want to, through any possible misunderstanding of mine, put in a wrong answer.

Mr. PASSMAN. Should you not resolve that simple question? If you do not have sufficient information about how this procedure is going to work, to be able to answer that question, I doubt that you would have sufficient information to carry out a program of that type to successful conclusion.

I make that observation respectfully.

We shall ask Mr. Dillon to answer that question.

Thank you very much, Mr. Secretary. You have been cooperative and helpful. The committee now will recess, to reconvene upon the call of the chairman.

THURSDAY, JUNE 29, 1961.

## MILITARY ASSISTANCE PROGRAM

## WITNESSES

HON. ROBERT S. McNAMARA, SECRETARY OF DEFENSE  
GEN. LYMAN L. LEMNITZER, CHAIRMAN, JOINT CHIEFS OF STAFF  
WILLIAM P. BUNDY, DEPUTY ASSISTANT SECRETARY OF DEFENSE  
FOR INTERNATIONAL SECURITY AFFAIRS  
GEN. W. B. PALMER, DIRECTOR OF MILITARY ASSISTANCE, OASD,  
DEPARTMENT OF DEFENSE

Mr. PASSMAN. The committee will come to order.

We have with us today the Honorable Robert McNamara, Secretary of Defense, accompanied by Gen. Lyman Lemnitzer, the Chairman of the Joint Chiefs of Staff. Also present are General Palmer, the Director of Military Assistance, OASD; Mr. William Bundy, Deputy Assistant Secretary of Defense, and a number of other important witnesses.

We are pleased to have you before this subcommittee, gentlemen.

## STATEMENT OF THE SECRETARY OF DEFENSE

Mr. Secretary, before getting into any questioning, do you have a statement to make to the committee?

Secretary McNAMARA.. Yes. If it is agreeable, I will read it rather quickly to you.

Mr. Chairman and members of the committee, I appear here today in support of the military assistance program. It is my conviction that the program proposed by the President is essential to fulfill the responsibilities of the Department of Defense. I believe it makes a major contribution to the flexibility of our military planning, and to our overall defense effort.

Although my appearance before you is properly confined to military assistance, I wish to make it clear that I fully support the economic aid program as well. The two programs are in fact indispensable to each other; they are not competitive but complementary, parts of the same total strategy for dealing both with the Communist menace and with the basic long-term problems of the world as they affect U.S. national interests.

The role of military assistance was well defined by President Kennedy in his March 22 aid message to Congress:

The economic programs I am recommending in this message cannot succeed without peace and order. A vital element toward such stability is assurance of military strength sufficient to protect the integrity of these emerging nations while they are advancing to higher and more adequate levels of social and economic well-being.

Our military aid to other countries must be a part of our overall defense plans. From the President's defense messages to Congress you will have noted the new emphasis on U.S. strategic forces which can ride out a nuclear attack, on command and control of nuclear weapons, on increased and more mobile nonnuclear forces, and on the problem of how best to assist those jeopardized by internal aggression. Our projected military assistance programs are a necessary

part of this framework. Through this assistance we will improve our ability to deal with aggression in its incipient phases, to furnish help for friends and allies which will be more consistent with the kind of threat they face, and to maintain the facilities abroad required for the quick and effective deployment of appropriate U.S. forces.

The program should serve a threefold purpose. It must be more active than ever in helping free and independent nations to protect their internal security. It must continue to make "local war" clearly unprofitable, and thus to deter such wars, or the mere threat of such wars, which may be a vital part of the subversive effort. And it must play its part, especially in NATO, in deterring any resort to general war.

To see more clearly what military assistance does, it is useful to group the countries covered by the fiscal year 1962 program into three categories which, though not precise or mutually exclusive, provide a useful key to the program: (1) those countries who, in the main, face only the threat of internal aggression, the now familiar pattern of penetration, infiltration, subversion, dissidence, and guerrilla warfare; (2) those who face the threat of direct military aggression in addition to internal aggression; and (3) the special situation in the NATO area.

In the first category, which may be called the single-threat countries, belong the underdeveloped nations of Asia, the Middle East, Africa, and Latin America that are not contiguous to the Sino-Soviet bloc but which Communist words and actions have shown to be targets for indirect aggression. In these areas we recognize as the primary requirement the need for economic and social progress and the cooperation of governments and peoples in striving for a better life. Through economic programs we seek to contribute to this development. An essential component of their progress, however, is the maintenance of internal stability, and in this function the role of the Military Establishment and other security forces is essential. Military aid to such countries involves primarily the provision of small arms, transport, communications, and training. Our objective here is to provide the means for local military establishments, with the support and cooperation of local populations, to guard against external covert intrusion and internal subversion designed to create dissidence and insurrection.

In the second category, which may be called the double-threat countries, belong those nations contiguous to or near the Sino-Soviet bloc that face a direct threat from without and an indirect threat from within. Vietnam today is a classic example of how these threats feed on and reinforce each other. The twofold threat requires dual-purpose forces in terms of arms, equipment, and personnel. Our military assistance programs play an essential role in furnishing arms and equipment and in teaching troops to operate, maintain, and use them. Because of this twofold threat the military aid we plan to give them is proportionately high. We recognize the inadequacy of their forces to cope with an outright Communist invasion, yet with our assistance we count on their courage and ability to deal with large-scale guerrilla warfare. Should they suffer an open attack across their borders, we look for local forces to resist the initial thrust until such time as free

world forces may come to their support. In these areas the capability of our own forces to deploy quickly against aggression is heavily dependent upon the development and maintenance of base facilities or military infrastructure on the spot or in the vicinity.

The third category of NATO is a special case because of our particularly close relationship to our NATO allies, the continuing and direct Soviet military threat against Europe, and the importance of increasing the effectiveness of NATO shield forces to deter this threat in the changing circumstances with which NATO is confronted. I will have more to say about our approach to this job later.

#### MILITARY ASSISTANCE PROGRAM FOR 1962

Having described the place of the fiscal year 1962 program in our overall security policy, I propose now to summarize the main points of the program itself.

We have given you—and I will submit for the record as annex A to this statement—a breakdown by area and function, which compares the 1962 program with what we have actually done under the 1961 program voted by the Congress last year. Annex B is a comparative regional breakdown on a percentage basis.

The total amount requested for fiscal year 1962 is \$1.885 billion. This figure was arrived at after much study. When this administration took office, it found that the Departments of State and Defense had recommended to President Eisenhower last fall a total of \$2.375 billion; the Eisenhower budget had reduced this amount to \$1.8 billion. As a result of our approaching the matter in the first instance by seeking a minimum essential amount, the President placed a figure of \$1.6 billion before the Congress in March. Roughly two-thirds was for force maintenance and fixed charges, that is, the money needed to keep the program going, and to prevent the weapons, equipment, and training furnished in earlier programs from deteriorating and going to waste. The balance was for force improvements in order to carry out undertakings initiated in earlier years, plus a few cases where the need for force improvement was clearly very great.

As President Kennedy told the Congress in March:

I am frank to say that I cannot now say with precision whether this amount (\$1.6 billion) will meet the minimum level of military aid which our basic security policy might demand this year. The emergence of new crises or new conflicts may require us to make an even greater effort.

Events since March 22 have borne out this prediction. The threat to Laos, Vietnam, and Thailand and the threat of communism in Latin America—these in particular have been underlined by intervening developments. But these intervening developments had a more general meaning. They caused us to review the list of additional requirements, and to conclude that a limited number of others must now be considered in the essential category. Accordingly, the President has now recommended a total of \$1.885 billion for military assistance in 1962.

Let me emphasize the care that we used in arriving at this final figure. The items in the program were carefully selected, first by me and then by the President, from a much longer list which consisted of items for which our military advisers had certified that a high pri-

ority military requirement existed. In paring the list, I myself took particular pains to eliminate items of sophisticated equipment where in my judgment the recipient countries would not be capable of using this equipment effectively at least at the present time. In short, the \$1,885 million figure represents a rigorous selection by the new administration.

The highlights of the program, country by country, are presented at pages 10 and 11 of the book that has been provided to the subcommittee. They include the following:

1. Strong emphasis is placed on the Far East, which totals \$870 million, or nearly half the whole program. While the largest items in this total are for Korea and the Republic of China, both directly exposed to the main power of Communist China itself, the program shows major increases for Vietnam and Thailand. These increases are vital to the continued defense of these countries, which are, of course, far more seriously threatened than before as a result of what has been happening in Laos. We look to a substantial reduction in the overall program for Japan in future years.

2. There is substantial reduction in Europe, and particularly in the NATO countries apart from Greece and Turkey. The proposed program for Europe is 22 percent of the total \$1,885 million; last year the proportion was 33 percent. This year's amount includes the NATO multilateral programs such as infrastructure; on this matter the U.S. share has been reduced from 37 to 31 percent, a saving of about \$15 million. Individual country programs are confined almost exclusively to undertakings initiated in earlier years.

I wish to emphasize that this change does not signify any shift in our conviction of the vital importance of the NATO alliance and of the continuing need for strong defenses of the NATO area, including a powerful nuclear deterrent. As the President said on May 25:

Our will and capacity to resist all types of aggression in the NATO Treaty area should be clear beyond possibility of miscalculation.

The reduction in programs for Europe reflects the increased financial capability of certain European nations to meet their own military requirements. It also reflects the fact that we are engaged in working out with our NATO allies the question of how NATO forces can be strengthened most effectively to insure that there is no miscalculation by the Soviet bloc of NATO's will and capacity to defend itself. As you know, the administration has concluded that considerable progress is needed in building NATO's nonnuclear forces in order to enhance the overall deterrent creditability of NATO. This task may well involve a greater effort by all NATO members, and we must be prepared to consider how future military aid can be related most effectively to military programs developed on the basis of studies now underway in NATO.

3. We have increased the emphasis on internal security programs, especially in the \$68 million program for Latin America. We believe that the threat of internal subversion has mounted in that area as a result of Castro, and that our aid programs must take this into account.

All of the internal security programs will be determined on in the end only after careful study by the State Department. We shall not

be building forces for aggression, and we shall take every precaution to avoid giving any corrupt regime the means to maintain itself in power. The amounts are small compared to the economic aid amounts recently granted by the Congress, which we in Defense unreservedly support as the major long-term element in our Latin American policies.

For Africa, the amount shown without identification for specific countries is to assist in meeting the internal security needs of a number of newly independent nations. Many of these are already turning to us for aid, sometimes to avoid or counter Soviet bloc offers.

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These are the highlights of the program before you. General Palmer and others of my staff, along with the Assistant Secretaries of State, will be testifying to the whole in detail. My major point is that the program is a carefully considered one, on which the Departments of State and Defense have worked closely together. We believe it merits your full support.

Let me conclude this section by referring to one proposal in the authorization legislation, which if approved by the Congress will be of major concern to this subcommittee. This is the proposed special authority, section 510 of the draft bill, which would permit the transfer of up to \$400 million worth of existing Defense stocks and services to the military assistance program, in cases where the President finds that this is vital to the national security. The authorization legislation provides no other source of emergency funds for military assistance. We looked at the experience of this year, the prospect of further crises in southeast Asia and elsewhere, and the experience of such past semicrises years as 1958 (when roughly \$300 million was diverted to key countries as a result of the Middle East and offshore islands crises), and concluded that the most desirable way to handle this kind of situation was to ask for this type of authority. We do not expect, as of now, to have to use any part of this authority; we would do so only to meet major needs that may develop which are unforeseen or so uncertain that it would be inappropriate to budget for them at the present time.

The Presidential finding involved here, which would be made by the President personally, would be a particularly grave one. Such action is not one that I should recommend lightly to the President.

#### PROGRAM MANAGEMENT

Having considered next year's program from the viewpoints of the policy framework in which it has been conceived and of its major elements, let me turn now to the important field of program management.

The fiscal year 1962 program has been derived from a new planning and programming process, the main features of which are: (1) planning year by year for the 5-year period 1962 to 1966, in terms of foreign policy and national security objectives; (2) much greater emphasis than before on the role of the local military assistance advisory groups and on the crucial pulling together by the three major unified commanders—General Norstad in Paris, Admiral Felt in Honolulu, and General O'Meara in the Canal Zone. The last point is directed par-

ticularly at the criticism often made by this subcommittee in the past—that MAAG's in particular countries were receiving equipment for which they had not asked. The present process means that nothing can be shipped unless a requirement has been clearly worked out and stated by the MAAG and by the unified commander.

I have accepted and endorse this new planning and programing process placed in effect by my predecessor. I consider that its use will lead to a marked improvement in the management of the military assistance program. Of particular importance are the additional authority and responsibility given to those in the field who are in the best position to estimate the political and military requirements of the recipient countries, the improved correlation of policy objectives with logistical factors, and the adoption of systematic, uniform, symmetrical procedures which will give administrators better control over the system than has been the case in the past.

To improve the administration of the program, I have given major weight to the past criticisms of the Congress, and in particular to the reports of the General Accounting Office and to our own internal audits of the program.

As a result of my study of these findings—which have aided me greatly in informing myself about the program—I have taken certain specific actions since coming into office. Not all of these are wholly new, but in total they represent, I think, a significant emphasis.

I have directed that clear, prompt, and positive remedial action should be taken on every GAO report and that all Department of Defense personnel, both in Washington and in the field, should give every possible cooperation to representatives of the Comptroller General preparing these reports. I have myself reviewed GAO reports sent to the Department of Defense in the last year. We in the Department of Defense are now conducting our own internal audit of the operations of all unified commands and MAAG's on a rotating schedule. Program evaluation teams from the commands now monitor operations in each country much more closely than in the past. Additional personnel will be assigned to the Office of the Director of Military Assistance to follow up on compliance with ordered remedial action.

In two other fields I anticipate improved program management. First I attach importance to the assignment of the best available personnel to MAP work abroad, especially to top echelon jobs in the MAAG's.

General Lemnitzer has done much to sponsor the assigning of such personnel in the past, and I propose to continue and expand on that policy.

Second, I support further strengthening of the coordination between the Departments of Defense and State, both for military and economic assistance. Without this the preparation of policy guidelines for field use and the review of programs prepared in the field, two essential elements in the management process, cannot be properly accomplished.

I do not envisage that adequate remedial action in all cases can be achieved at once—or even in the next year. I am determined, however, that the Defense Department's actions in program management should be marked by incisiveness, constructiveness, and urgency.

## CONCLUSIONS

Overall, the military assistance program is an essential element of our national defense and an essential tool of our foreign policy. It demonstrates our purpose far more convincingly than words and declarations.

I strongly urge that the Congress support the request for \$1.885 billion in new obligational authority for fiscal year 1962.

(The tables referred to above follow:)

*Military assistance, fiscal year 1962 proposed and fiscal year 1961 programs*

[Millions of dollars]

	Fiscal year 1962 proposed	Fiscal year 1961
I. By area, total.....	1,885.0	1,929.2
Europe.....	414.7	629.3
Africa.....	48.2	31.9
Near East and south Asia.....	453.5	406.6
Far East.....	870.3	764.3
Latin America.....	68.4	59.5
Nonregional.....	29.9	37.6
II. By category, total.....	1,885.0	1,929.2
Essentially fixed charges.....	376.3	405.6
Infrastructure.....	76.1	90.0
International military headquarters and agencies.....	11.3	11.0
Training.....	122.5	121.0
Supply operations.....	141.4	158.9
Administrative expenses.....	25.0	24.7
Force maintenance.....	740.7	626.0
Spare parts.....	340.6	318.3
Attrition, training ammunition, repair and rehabilitation of equipment.....	292.5	184.1
Other consumables.....	107.6	123.6
Force improvement.....	768.0	897.6
Aircraft.....	258.1	148.3
Ships.....	49.4	75.6
Tanks, vehicles, and weapons.....	67.7	50.9
Missiles.....	135.6	201.7
Electronics and communication.....	18.4	69.1
Special programs.....	94.4	61.6
Construction.....	59.6	61.3
All other.....	84.8	229.1
III. NATO only, total.....	719.2	857.8
Europe (NATO country programs).....	222.9	314.5
Near East (Greece and Turkey only).....	335.8	258.8
NATO infrastructure.....	76.1	90.0
NATO international military headquarters and agencies.....	11.3	11.0
Weapons production program.....	56.1	124.1
Mutual weapons development program.....	10.0	28.3
Other NATO area equipment and services.....	7.1	31.2

*Military assistance program comparison, by region*

[In percent]

Region	1962 proposed program	1961 program
Europe.....	22	33
Africa.....	3	2
Near East and south Asia.....	24	21
Far East.....	46	39
Latin America.....	4	3
Nonregional.....	1	2
Total.....	100	100
NATO.....	38	45

Mr. Chairman, that concludes my statement.

Mr. PASSMAN. Thank you very much, Mr. Secretary, for a forceful statement.

I think you might prefer to have the detailed questions deferred and answered by some of your subordinates at a subsequent date, and we shall get into policy matters at this session of the hearings.

Secretary McNAMARA. I will be happy to have it handled that way. You may wish to hear General Lemnitzer's statement.

Mr. PASSMAN. We certainly would like to hear from General Lemnitzer.

It has been suggested that the Chairman of the Joint Chiefs of Staff may wish to make a statement before we proceed with our questioning and discussion.

General Lemnitzer, do you have a statement you would like to make?

General LEMNITZER. I have a brief statement.

#### STATEMENT OF THE CHAIRMAN OF THE JOINT CHIEFS OF STAFF

Mr. Chairman and member of the committee, I am pleased to have the opportunity to appear before you in support of the military assistance program, as it has been described in detail by Secretary McNamara.

I have had a long association with, and a deep interest in military assistance. Within the Department of Defense, I happen to have been the first Director of the Office of Military Assistance, under Secretary Forrestal, and assisted in the development of the first mutual security program.

Later, as the commander in chief of the United Nations and Far East Commands, I was responsible for the development of requirements and the administration of the program in a large theater of operations, and observed at first hand the contribution made by the program to the security interests of the United States and our allies.

The military assistance program has frequently been misunderstood. Some of its opponents have called it a giveaway program and have referred to it as "foreign military aid"—as though it were something given to other countries without return. Nothing could be further from the truth. In fact, this program reflects a realistic, hardheaded, commonsense approach to our very difficult security problems—problems which also confront the other free nations of the world.

I should like to emphasize this point, because it is an important one. The security problems of the free world are truly mutual. The military assistance program is a reflection of this basic fact. It is also a reflection of the global nature of the Communist threat which faces the United States and its allies, and the need to meet that threat on a worldwide basis. Without any question, the assistance we have provided, and continue to provide our allies—in the form of training and equipment—has been a major factor in thwarting Communist aggression. It will continue to be a major factor for the foreseeable future.

I look upon military assistance to our allies as adding strength and depth to the military posture of the United States. It enables our allies to organize, train, and equip units which enhance the capability of the free world to meet the challenge of Communist aggression and subversion. No amount of money spent on our forces could give the United States a comparable asset of trained, well-equipped forces, familiar with the terrain, and in suitable position for immediate resistance to local aggression.

Now I would like to mention the direct relationship that exists between the free world forces supported by the military assistance program and our own U.S. force objectives. The unified commanders, in cooperation with our ambassadors and other U.S. officials who make up the country teams in the countries concerned, coordinate closely in the development of the country programs. In this way, the capabilities of the countries assisted are developed so that they effectively complement the capabilities of the Armed Forces of the United States.

The military assistance programs and force objectives of the participating countries are further reviewed by the Joint Chiefs of Staff, as well as other agencies of the Department of Defense, in order to insure that the military assistance planning dovetails and fits in with our own military planning. Further, our military assistance planning is now accomplished on a long-term basis. The Joint Chiefs of Staff participated in the development of the long-term plan, and took particular effort to insure that the military assistance programs are directly related to our own long-range U.S. operational planning. In such planning, all requirements are, of course, related to the total threat of Communist aggression.

I should like to speak briefly of the nature of this threat as it bears on this particular program. In making presentations to other committees of the Congress during this session, I have pointed out that, during the past year, we have seen the Communists further develop and improve their technique of creeping expansion. Up until the recent past, the ability of the Communists to project their power was limited to areas contiguous to the Sino-Soviet bloc. In the last year, however, the Soviets have shown a new capability to project their power thousands of miles beyond their border—into Africa, and even into the Western Hemisphere. This is an important point, adding a new magnitude to the threat and making the military assistance program of even greater significance.

I have already made reference to the very important additions to the total military strength of the free world which these programs make possible. There have been positive results from the strength our military assistance programs have provided the free world in complementing our own military strength. For example, our military as-

sistance programs have played a major role in maintaining a degree of stability in areas such as the entire NATO area, Taiwan, Korea, the Middle East, and southeast Asia.

Again, these programs have permitted us not only to establish, but also to give meaning to the alliances which are so essential to our basic policy of collective security. These alliances have been able to withstand the determined efforts of the Sino-Soviet bloc to destroy them. Finally, these programs should be credited for enabling us to maintain the oversea base structure which is vital to our forward strategy.

A few weeks ago, I attended the Ministerial Council Session of the Central Treaty Organization in Ankara, Turkey, as the U.S. military representative, and returned to the United States via southeast Asia and the Far East after the meeting ended. I have visited these areas a number of times in the past 14 years and have observed how our assistance has contributed to the security, the economic growth, and, most importantly, to the determination to oppose communism. The progress that I have observed is impressive, and demonstrates that our military assistance programs are a sensible and effective method of meeting the Communist threat.

Another reason for strongly supporting the military assistance program stems from my belief—as expressed before other committees of the Congress—that the decade of the sixties could be decisive to the survival of this Nation and its allies. Within this decade we must meet the challenge posed by the buildup in Communist power in a clearly adequate and timely fashion. The Communists, in their constant efforts to export their system in support of their goal of world domination, take every means available to them to create armed and militarily capable satellites which can be used as instruments of Soviet policy. We must meet the competition squarely and effectively.

In conclusion, Mr. Chairman, in making this statement I am speaking not only for myself, but also on behalf of all the members of the Joint Chiefs of Staff. They join me in unanimously endorsing the essentiality of the military assistance program. The Joint Chiefs of Staff regard the mutual security program as a cornerstone of our total defense effort and of our national security.

That completes my statement, Mr. Chairman.

Mr. PASSMAN. Thank you very much, General.

Mr. Secretary, do you regard the military assistance program as a vital phase of the mutual security program?

Secretary McNAMARA. I do.

Mr. PASSMAN. I notice that in your statement, on page 9, you say:

This year's amount includes the NATO multilateral program such as infrastructure; on this matter the U.S. share has been reduced from 37 to 31 percent.

That is an encouraging development.

#### LONG-RANGE PLANNING IN MILITARY ASSISTANCE PROGRAM

With regard to the multilateral contracts, does it not require a lot of planning and work to ever bring one of these contracts into being, in getting the different nations to agree as to just what should be done?

Secretary McNAMARA. Yes, it does.

Mr. PASSMAN: Some of us believe that this category may possibly require more consideration, more careful planning than maybe some other phases of the mutual security program.

Do you agree that this part of the program perhaps requires more careful planning, more long-range planning than would be the case for the normal, or other, phases of mutual security?

Secretary McNAMARA: I am not certain that I understand the comparison between the normal phase and the multilateral, but the contracts involving several nations are complex documents and require considerable detailed planning.

Mr. PASSMAN: In all probability, if we just wanted to face this matter head on, for a military program of this type, you would need more flexibility, so far as working out a long-range program is concerned, than you would in the average aid program; is that not so?

I am trying to compare the complexities of one program with the other.

I am wondering whether, because of the complexity of this program, you would not really need more flexibility than would be needed for the average foreign aid program, economic in nature.

Secretary McNAMARA: I think each of us likes to feel he is in charge of the most important and complicated part of the Government's activity. I would like to feel we were in defense.

I must confess that I believe planning an economic aid program for a nation is even more complex than planning a military program.

Mr. PASSMAN: Upon what basis do you arrive at those conclusions?

Secretary McNAMARA: The economic aid program covers almost every facet of a nation's economy, and an allocation for research must be planned as a foundation for that economic aid program. This is an exceedingly complex matter.

I do not know that I can speak with any authority on the comparison of the complexity of economic planning versus military planning. Both are highly complex.

Mr. PASSMAN: You would not place a priority on one over the other, would you?

Secretary McNAMARA: I would find it difficult to speak as an authority on economic aid. I know the military planning is complex. I have had some experience in economic planning, and I have also found that very complex.

Mr. PASSMAN: I should think that planning for this great NATO organization, in which so many nations are involved, and where so much is at stake, would possibly take precedence over, for example, a few flood control projects, or dams, in Europe.

I do notice here, though, that in planning, year by year, for the 5-year period, 1962-66, inclusive, you do have a long-range program in effect.

Secretary McNAMARA: Yes.

Mr. PASSMAN: Has this 5-year planning been working satisfactorily?

Secretary McNAMARA: This is the first year in which we have extended it in as much detail as we have, and in which we have covered each of the 5 years. I have every reason to think it will work satisfactorily. I think this planning is an absolutely essential requirement for our particular type of operation.

Mr. PASSMAN. I notice that the chairman of the Joint Chiefs of Staff said:

Our military assistance planning is now accomplished on the long-term basis. The Joint Chiefs of Staff participated in the development of the long-term plans and took particular effort to insure that the military assistance programs are directly related to our own long-range U.S. operational planning.

That long-range planning is in being at the present time?

General LEMNITZER. That is correct. As the Secretary pointed out, this is the first year in which the program has been developed on the basis of the long-range planning, and this year's program is actually a segment of the long-range plan.

Mr. PASSMAN. In some of my trips around the world, I have found that they have gone into the 5-year plan.

Out in one of the Far Eastern countries last year we had a very interesting session, and they indicated they had a 1-year plan which was a slice of a 5-year plan. We went into all of it, the 1-year plan and the 5-year plan.

Am I correct in assuming that you do have the plan?

General LEMNITZER. You are correct.

Mr. PASSMAN. Is it working out fairly satisfactorily?

General LEMNITZER. Yes. Such a plan provides a much more satisfactory basis for developing annual programs.

#### ANNUAL APPROPRIATIONS TO IMPLEMENT LONG-RANGE PLANNING

Mr. PASSMAN. You expect to implement the plan by annual appropriations from the Congress?

General LEMNITZER. Yes, sir; that is the objective.

Mr. PASSMAN. You do not have any particular worry at this time about the funds being forthcoming to meet your commitments?

General LEMNITZER. We must always be concerned over the resources required to support a program we consider to be vital.

Mr. PASSMAN. Are you worrying about not receiving adequate funds to meet your commitments?

General LEMNITZER. If in 1 year the resources are not provided at an adequate level, the programs for succeeding years are affected very adversely and major readjustments become necessary.

Mr. PASSMAN. Your experience with the committee and the Congress indicates that the funds will be forthcoming, in an amount adequate to implement the program?

General LEMNITZER. Generally speaking; yes, sir.

Mr. PASSMAN. You are not dissatisfied with the process of making annual appropriations to implement the program?

General LEMNITZER. No, sir; provided that the annual appropriations matches the annual increment of our long-range program.

Mr. PASSMAN. Do you feel that this military program is as important a phase of the overall program as the economic program?

General LEMNITZER. I feel that the military assistance program is absolutely essential, from the standpoint of our own security interests.

Secretary McNAMARA. May I comment?

I do not wish to leave the impression that economic planning can be properly done on a 1-year basis. I personally do not believe it can. I have had something to do with economic planning in both the private

and public fields. Though it is not now my responsibility, I have had some experience in it. I am strongly of the opinion that it requires a long-term foundation in order to be handled efficiently.

Mr. PASSMAN. We are in general accord with your statement. It is a question, however, of how you get the money, whether you get it by an annual appropriation, or whether you are given a blank check and bypass the Appropriations Committees and the Congress. That is the point I was trying to make.

Nevertheless, I think we concur that we might look somewhat ridiculous if we should leave in the record the indication that other phases of the program are more complex than the military phase of it.

Secretary McNAMARA. That is the next point I was going to make. I would not want to have it left that way.

These are both very vital parts. In the long run, the foundation of stability and security in a nation will depend in large part upon its economic growth. We realize that.

Mr. PASSMAN. You have a long-range plan, but you have no plan at this time to place this phase of the foreign aid program on a basis of money borrowed from the Treasury, rather than on an annual appropriation basis?

Secretary McNAMARA. No, for this reason. The leadtime required to properly plan and procure the military equipment is far less than the leadtime required to properly plan and procure major elements of the economic plan. Therefore, the military plan can be financed by year-by-year appropriations in a way that the economic plan cannot be.

Mr. PASSMAN. We are not going to get into a quarrel with you distinguished gentlemen, but the record will not fully support you there.

This committee and the Congress, in its wisdom, just a matter of a few weeks ago, cooperating with our Executive—notwithstanding that the authorization last year provided that certain reforms must be made, certain tax laws must be passed, and it was emphasized that this would require time, and that money to implement the authorization would not be requested until these things had been done—appropriated the full amount for the Latin American package.

We waived those requirements, as well as the lack of justifications, and we appropriated the full \$500 million requested. Here is how long range that is: The ink on the document, I suppose, is just about getting dry now. Yet they are already reaching the point of consummating loans to carry out these projects that have never been planned.

There are instances in the program where they would deobligate, say, in March and would reobligate in April, and maybe start the work in June or July.

So, if you have the military down to where you can operate that fast, it would be some encouragement for us to shorten the pipeline.

I wish you would have a look at some of the missions, to inform yourself as to how quickly they can obligate the funds. They come in here with new programs. They do not know whether they are going to get a dollar or not. But the Congress makes the appropriation. Then, they come back 12 months later and the money has all been obligated and disbursed. If you are getting the military on that fast a basis, our hats are off to you.

I did not mean to try to lead you into a trap. My apologies. I never thought you would try to run the military department with a back-door financing approach.

#### EXCESS DELIVERIES OF MILITARY EQUIPMENT

How do you propose to eliminate the valid criticism of excess deliveries on military equipment that appear to be continuing to some of these nations.

Secretary McNAMARA. By excess deliveries, I assume you are referring to deliveries of particular spare parts excess to country requirements.

Mr. PASSMAN. I am speaking, in one sense, of anything in the military program where some say, specifically, stop the shipments, we do not want the equipment, yet deliveries will still be made.

Secretary McNAMARA. We have proposed to eliminate that by a series of steps.

First, as I mentioned, this year the requirements that are covered in this book have come to us from the military assistance missions in each of the countries. They have not been developed here in Washington and imposed upon them.

I assume, and have reason to believe, that the chiefs of the military assistance missions in these various countries have very carefully gone over those requirements with the State and Defense representatives in their respective countries and have come to an agreement upon those requirements; therefore, I am confident that this represents what they wish. I do not believe anything in here will be forced upon them. I think there may still be some errors in calculating their requirement, particularly for spare parts.

It is a very complex calculation, and I expect a year or two from now we will look back on what we have requested and confess we made a mistake. I do not believe it will be pushing upon them equipment they did not want at the time they ordered it, but there may be particular parts they find they may not need at the time of delivery.

Mr. PASSMAN. Mr. Secretary, there are a lot of things that could be more pleasant than trying, often futilely, to have this developed into a better program. I know you, too, can think of many things which would be more pleasant. We are endeavoring, just as you are, to be of service. If we should appear, along the way, to be unduly critical, it is simply because we are trying to understand the program, and we are trying to help make it a better program.

Reports of the nature which I have indicated are still coming in, and there is little indication that there has been any great improvement in the operations, although there has been some, of course.

Here is a report which discloses that substantial improvement has been made in the development of the program by the Military Assistance Advisory Group since the previous report on Taiwan by the General Accounting Office.

Improvements were noted in program planning, principally through the adoption of a long-range concept. But, despite these improvements, the report shows that:

- (1) Material requirements were in certain instances overstated or were not satisfactorily supported or documented;

(2) (Statement off the record.)

(3) Material on previously approved programs was being delivered although no valid current need existed;

(4) Excessive quantities of supplies were being locally procured with funds generated by U.S. economic assistance programs;

(5) Significant quantities of supplies and equipment furnished under the military assistance program were in excess of current country needs;

(6) U.S. contracts with the local government for the overhaul of naval vessels have been a costly and unsatisfactory means of providing maintenance support; and

(7) (Statement off the record.)

This was after the adoption of the long-range program. I thought I would indicate that maybe there is still just a little bit of work to be done.

Secretary McNAMARA. I would like to correct the record, if I may. This report was not a report on action after adoption of the long-range program. I believe you are reading from the Report of the Military Assistance Program for Taiwan, which I have with me.

This long-range program, as General Lemnitzer mentioned, is effective in fiscal year 1962, so the actions audited by this report were not actions under a long-range program.

Mr. PASSMAN. I stand corrected. We have been talking about this long-range program ourselves since it started. This goes back, if I remember correctly, to 1959, when we were holding examinations on it. We were holding examinations again in 1960. You may not have put it in effect, but you certainly had plans and the MAAG Chiefs in the field knew all about it. I stand corrected anytime that I make a statement that is not in keeping with the record. I do not think there has been very much improvement, possibly, in certain areas anyway.

Secretary McNAMARA. There certainly has not been enough improvement. I agree with that.

Mr. PASSMAN. We shall go into the details with General Palmer.

Secretary McNAMARA. I want to draw your attention to this particular report you quoted from. It is a very encouraging report to me.

Mr. PASSMAN. Some parts are encouraging, and other parts are discouraging.

Secretary McNAMARA. It says, "Substantial improvement has been made in the administration of the MAP for Taiwan since our previous review in 1957." I felt very encouraged. What it does show is the need for much more improvement. It is up to us to carry that out. I happened to have this with me because I have all the audit reports published since I came in. I personally am reviewing these. We are acting to be sure we correct deficiencies to the best of our ability.

Mr. PASSMAN. Unless I am using an inaccurate figure, there are 106 of those agency internal audits. We requested copies of them last year, but I must have been out if they were brought down. I want to renew that request this year.

General PALMER. They are all made available to the GAO. We may have thought you were getting them through that channel.

Mr. PASSMAN. We would prefer to deal directly with you on this matter, General.

General PALMER. All right.

Mr. PASSMAN. We concur that the military program is an important part of foreign aid, and it is certainly complex, and you are now on a long-range basis. You do not appear to entertain very much fear that you are not going to get the funds from the Congress which are needed to implement the commitments.

We are encouraged that you are not asking for military funds on a back-door approach.

#### SITUATION IN LAOS

Mr. GARY. Mr. Secretary, we have been appropriating money for several years to support an army of 25,000 in Laos. It was very difficult, at one time, for us to get any information about that army at all. We couldn't find out whether there really was a Lao Army. Several of us went over to visit Laos a little over a year ago. We were assured at that time that the Lao did have the army of 25,000 that we had been supporting.

We were also told that the Pathet Lao, who were up in the mountains of northern Laos, only numbered about 3,000 or 3,500, I believe it was.

They were the guerillas that were causing the difficulty.

The United Nations sent a team to Laos for a survey. They couldn't find any evidence of the fact that there was any outside help. Yet the regular army, or the Lao, have been losing ground steadily. What happened to this army of 25,000 we have been supporting over there?

Secretary McNAMARA. It faced an army supported by the Sino-Soviet bloc. I would wish to check this figure before having it permanently in the record, but my recollection is that in recent months the Soviet Union has flown ——— sorties of equipment, materiel, supplies and arms, into Laos, this to supply both the Pathet Lao and the North Vietnamese who have crossed the border to support the Pathet Lao and lead the Pathet Lao. The Royal Lao Army, therefore, is confronting not a few guerillas, but a fully representative force of the Sino-Soviet bloc.

Mr. GARY. What is the estimated strength of that?

Secretary McNAMARA. I would hesitate to say. General Lemnitzer, would you choose to answer?

General LEMNITZER. It is difficult to distinguish the Pathet Lao from the North Vietnamese and you have both types in the Pathet Lao units. This fact reveals the tactics used by the Communists in southeast Asia in recent years. You say you were there 2 years ago, Mr. Gary?

Mr. GARY. I was there a year and a half ago. It was in September or October of 1959.

General LEMNITZER. At that time the Pathet Lao were being trained in North Vietnam, and were being trained very efficiently. In the past year, however, the Pathet Lao have been reinforced by North Vietnamese troops, so that Pathet Lao units today are partially of Lao and partially Vietminh.

I would like to say this with respect to the Lao Army. The United States did not have either the responsibility or the authority for training the Royal Lao forces. The French had the authority and

the responsibility, under the terms of the Geneva Accord of 1954. Therefore, the actual training of the Royal Lao Army was solely a French responsibility. The responsibility and authority of the United States was strictly limited to providing equipment. It was only about 2 months ago that the United States, with the approval of President Kennedy, assumed the responsibility for training and equipping the Royal Lao forces.

Mr. GARY. Why didn't we do that before, if it is true that the North Vietnam forces were training the Pathet Lao and Russia was rushing equipment in there?

Why didn't we then go in and train the Lao and give them the necessary equipment to meet that force that was coming against them?

General LEMNITZER. Well, that would involve a political rather than a military decision. The U.S. responsibility was limited to providing equipment and logistical assistance. Actually, the Russian airlift began last December, but it is still going on. There are sorties each day, as the Secretary has pointed out, and the Russians are providing Russian equipment for the Pathet Lao forces.

Mr. GARY. How many are in the forces now that are opposing the Lao?

(Discussion off the record.)

Mr. GARY. Last year we were told by Admiral O'Donnell, testifying before this committee, "American technicians working with the French have made significant progress in the training of the army."

General LEMNITZER. That is right, but only insofar as logistics training is concerned. We did not have authority a year ago to train combatant units.

Mr. GARY. We appropriated ——— million, I think, for the training program.

General LEMNITZER. It was for the training of logistical and support type units, rather than of combatant units. It was only about 2 months ago that the United States established a Military Assistance Advisory Group in Laos and now that group is responsible not only for providing equipment but also for combatant training and logistic training.

Mr. CONTE. Will the gentleman yield?

Mr. GARY. Yes.

Mr. CONTE. Regarding the question by the gentleman from Virginia, I, too, was in Laos in November of that year and had flown over the country and inspected the troops.

At the time the big problem seemed to be with the individuals I talked to who were out there instructing these boys that the Royal Lao Army was a backward group of individuals, they had no desire to fight whatsoever. They couldn't get any initiative out of these individuals. There was a great deal of corruption in the army. We were picking up the entire tab for the army. The money was going through the army high command and before it dribbled down to the buck private he received about 10 percent of his pay.

(Discussion off the record.)

Mr. GARY. Who has been training the North Vietnamese?

General LEMNITZER. The North Vietnamese have received a great deal of assistance both from Red China and from the Soviet Union.

Mr. GARY. Do you know that the Chinese or the Soviet Union were in there actually training their forces?

General LEMNITZER. In North Vietnam?

Mr. GARY. Yes.

General LEMNITZER. Yes; I think the record shows that there were considerable numbers of Russians and Red Chinese technicians in North Vietnam before Dien Bien Phu and before the Geneva Accord of 1954.

Mr. GARY. Have you any idea now what the relative strength of the two forces opposing each other is?

General LEMNITZER. In Laos?

Mr. GARY. Yes.

General LEMNITZER. Yes; we have that information.

(Discussion off the record.)

Mr. FORD. Will the gentleman yield?

Mr. GARY. Yes.

Mr. FORD. As I remember a presentation before the Defense Subcommittee within the last month or so, General Lemnitzer, it was indicated that in both Laos and in South Vietnam we had "X" number, or have had "X" number of military advisers in those two countries.

General LEMNITZER. That is correct.

Mr. FORD. As I recall, they spoke as though these advisers had been there during fiscal 1961 to some extent in numbers.

General LEMNITZER. In South Vietnam, they have been there for longer than that because we have had an authorized military assistance advisory group, a large one, actually in South Vietnam since 1954 right after the Geneva Accord. South Vietnam was a country in which we were authorized to train and equip forces. In the case of Laos, however, the French were the only ones authorized to train combat forces, but they were unable to provide the hardware. We agreed to provide hardware.

(Discussion off the record.)

Mr. GARY. As I understand it then, General, the military aid to both Laos and South Vietnam comes out of this military program?

General LEMNITZER. It does.

Mr. GARY. And if we are going to strengthen those forces it will be out of this particular fund rather than the regular military fund?

General LEMNITZER. That is correct, and the same applies to Thailand.

Mr. FORD. May I ask a question there?

Mr. GARY. Yes.

Mr. FORD. The equipment would come out of this appropriation but the pay of our own personnel, the military advisers and our MAAG's, would come out of the U.S. military appropriations.

General LEMNITZER. That is absolutely right. The military assistance in the form of hardware or supplies is financed by the military assistance appropriation. The pay and subsistence of military personnel involved in the program comes out of the normal Defense Department appropriations.

Mr. GARY. It is my understanding that we have been helping to support the Lao Army also, paying their salaries, et cetera, or at least making contributions to it. Isn't that right?

Mr. CONTE. Not merely support but we pick up the entire tab.

Mr. ANDREWS. It amounts to several million dollars a year, I believe.

Mr. CONTE. We pick up the entire tab for the Lao Army.

Mr. BUNDY. This is through the defense support fund, but is not part of MAP.

Mr. GARY. But it is out of the foreign aid program.

Secretary McNAMARA. That is correct.

Mr. ANDREW. All of this money goes for military hardware; is that correct?

General LEMNITZER. And training and collateral expenditures associated with the training and materiel programs.

Mr. ANDREWS. I thought training was given by the MAAG officers who are paid through our own military appropriation.

General LEMNITZER. There are certain expenditures with respect to training which are chargeable to military assistance. For instance, the costs associated with bringing a good many people into this country for training would be charged to military assistance.

Mr. ANDREWS. That would come out of this appropriation?

General LEMNITZER. Yes.

Mr. GARY. It is only the salaries of the U.S. military personnel that comes out of the regular Defense appropriation.

General LEMNITZER. That is correct.

Mr. GARY. All other expenses come out of this appropriation?

General LEMNITZER. Yes.

Mr. PASSMAN. Will the gentleman yield?

Mr. GARY. Yes.

Mr. PASSMAN. That is also true with respect to all of the other recipient nations in that part of the world, is it not?

General LEMNITZER. That is right.

Mr. PASSMAN. It is understood that we are making an appropriation for foreign military aid, and if there are 35 nations participating, then they would participate in similar manner, other than those which received defense support, and I think there are about 7 of those countries. Other than that, they all will operate under the same type of formula.

General LEMNITZER. They do. The point was made that we had an unusual situation in Laos after the Geneva Accord of 1954 where we could not participate in training the Lao forces.

Mr. GARY. I am sure a great many of the questions I asked, Mr. Chairman, were familiar to the members of the committee. Some of it I think we should get on the record for the benefit of the other Members of Congress who have not had an opportunity to look into these matters as closely as we have.

Mr. PASSMAN. I think the gentleman is absolutely correct.

#### PROCUREMENT OF MILITARY EQUIPMENT

Mr. ANDREWS. May I ask a question at this point, Mr. Chairman, to find out just how this military hardware is procured?

Mr. PASSMAN. Certainly.

Mr. ANDREWS. Who is the purchaser, ICA?

Secretary McNAMARA. No. The purchase order in effect comes from one part of Defense into the procurement agency for Defense.

That procurement agency will generally be one of the three services—Army, Navy, or Air. I say “generally” because occasionally there is a common central purchasing agency.

Mr. PASSMAN. The Defense Department procures for the military assistance program in its entirety?

Secretary McNAMARA. That is correct.

Mr. ANDREWS. What price do you charge the military assistance program?

Secretary McNAMARA. The price we pay. There is an exception to that.

Mr. ANDREWS. In case you sell surplus or used property to this program, what price do you charge?

Secretary McNAMARA. That is the exception. If it is excess to our requirement, we charge the price of reconditioning it for the military assistance program.

Mr. CONTE. Will the gentleman yield?

Mr. ANDREWS. Yes.

Mr. CONTE. Mr. Secretary, is there a buy-American policy in regards to this equipment?

Secretary McNAMARA. The great bulk of the expenditures, from the recommended total appropriation of \$1,885 million, will be incurred in this country. About 15 percent of the total \$1,885 million will be spent abroad. That is roughly \$300 million. That \$300 million will include expenditures in NATO for “Infrastructure” and all of the other expenditures abroad. Offsetting the \$300 million spent abroad are expenditures by foreign countries in this country for items for which we share the cost. Those expenditures, therefore, should offset our expenditures abroad so that on a reasonable basis, I think you could say that there is a favorable net effect on our gold position as a result of the program.

Mr. CONTE. Fine. When I was in Laos I noticed there were a great many English Rovers and other foreign manufactured goods throughout the country. I wondered why these were not American-made jeeps?

Secretary McNAMARA. There are no English Rovers to be procured for that area. I have a list of the details if you are interested in going over it. There is nothing being bought abroad which we could properly buy in this country.

Mr. PASSMAN. I have a great deal of detail I wish to go into later, but at this point I think we should indicate for the record that in the past, but not so today, you had the right, under the authority, to charge the mutual security program the replacement cost.

General LEMNITZER. In the early days of the program, that was the case.

Mr. PASSMAN. Much criticism was directed at that practice. In some instances, you might charge them two and a half times the original cost, but you then were permitted to charge the current replacement cost.

General LEMNITZER. In the early days of the program, that is correct.

Mr. PASSMAN. It has not been out very long. Is it not about 4 years?

General PALMER. Four years, sir?

Mr. PASSMAN. That is detail which we shall get to later.

OBLIGATION OF MEMBERS OF MILITARY PACTS IN CASE OF ATTACK ON  
ANY ONE MEMBER

We refer to this as a mutual security program. When you think of mutual security, it seems to imply that the other fellow will go as far with you as you would go with him. Yet we get into some of these organizations, for instance with relation to CENTO, about which I want to ask: Is it accurate to say that only the United States, of all CENTO members, is pledged to protect the integrity of CENTO nations, while the others have agreed only to consult?

General LEMNITZER. It is not true.

Secretary McNAMARA. It is definitely not true.

Mr. PASSMAN. This says:

The NATO Council is meeting here on its 10th anniversary—

General LEMNITZER. Are you speaking of NATO or CENTO, Mr. Chairman?

Mr. PASSMAN. I am now quoting:

The NATO Council is meeting here on its 10th anniversary.

I was speaking of CENTO. Then, I move on to SEATO. I am quoting.

This says:

SEATO has proved to be something less than effective. The signatory powers agree only to consult. Only the United States, by virtue of the bilateral treaties, is committed to come to the military assistance of threatened nations.

How many nations in these organizations are committed to come to our aid, militarily, if we are attacked?

General LEMNITZER. In the NATO area an attack on one is an attack on all.

Mr. PASSMAN. Do we have as firm an agreement that they will come to our defense as that we will go to their assistance?

General LEMNITZER. In NATO all member nations have accepted an obligation to regard an attack on one as an attack on all.

Mr. PASSMAN. Does that observation necessarily apply also to the others?

General LEMNITZER. It does not. The wording of the other treaties is not so rigid. In CENTO the United States is not a member of the Council of CENTO. We are, however, members of the Military Committee.

Mr. PASSMAN. Are we pledged to come to their rescue?

General LEMNITZER. No, sir; not in the same terms applicable to NATO.

Mr. PASSMAN. Militarily, are we not providing aid?

General LEMNITZER (continuing). That is a decision the United States would have to make under circumstances existing at the time.

Mr. PASSMAN. I am not questioning the policy. This, however, is a discussion which I thought should be in the record.

Secretary McNAMARA. Perhaps we should answer it for the record, Mr. Chairman.

The treaties differ as to nations but on balance our obligations to them are no different than theirs to us.

Mr. PASSMAN. Does that statement apply with reference to CENTO?

Secretary McNAMARA. We are not a member of CENTO.

Mr. PASSMAN. We give financial aid to its member nations.

Secretary McNAMARA. To individual countries.

Mr. PASSMAN. We counsel with them.

Secretary McNAMARA. To member nations.

Mr. GARY. We do not have an obligation to go to their aid in CENTO?

Secretary McNAMARA. No, sir.

Mr. PASSMAN. How many countries receiving our foreign military aid are bound by agreement to come to our aid if our country only were attacked by the Sino-Soviet bloc?

Secretary McNAMARA. We will answer for the record.

There are roughly 60 countries. We will go over each of them.

(The following information was supplied for the record:)

#### MILITARY TREATY COMMITMENTS

##### NATO

Article 5 of the North Atlantic Treaty states as follows:

"The parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defense recognized by article 51 of the Charter of the United Nations, will assist the party or parties so attacked by taking forthwith, individually and in concert with the other parties such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area."

In addition to the United States, Belgium, Canada, Denmark, France, Federal Republic of Germany, Greece, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, and the United Kingdom are parties to the treaty. Of these, all but Canada and Iceland are receiving grant military assistance.

##### SEATO

Article 4 of the Southeast Asia Treaty states as follows:

"Each party recognizes that aggression by means of armed attack in the treaty area against any of the parties or against any state or territory which the parties by unanimous agreement may hereafter designate, would endanger its own peace and safety, and agrees that it will in that event act to meet the common danger in accordance with its constitutional processes."

In addition to the United States, Australia, France, New Zealand, Pakistan, the Philippines, Thailand, and the United Kingdom are parties. Of these, all but Australia and New Zealand receive grant military assistance.

##### RIO TREATY

Article 3 of the Inter-American Treaty of Reciprocal Assistance states as follows:

"The high contracting parties agree that an armed attack by any state against an American state shall be considered as an attack against all the American states and, consequently, each one of the said contracting parties undertakes to assist in meeting the attack in the exercise of the inherent right of individual or collective self-defense recognized by article 51 of the Charter of the United Nations."

In addition to the United States, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela, are parties to the treaty. Of these, grant military assistance is received by Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

## CHINA

Article 5 of the Mutual Defense Treaty with Republic of China states as follows:

"Each party recognizes that an armed attack in the West Pacific area directed against the territories of either of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes."

## JAPAN

Article V of the Treaty of Cooperation and Security with Japan states as follows:

"Each party recognizes that an armed attack against either party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes."

## KOREA

Article 3 of the Mutual Defense Treaty with Republic of Korea states as follows:

"Each party recognizes that an armed attack in the Pacific area on either of the parties in territories now under their respective administrative control, or hereafter recognized by one of the parties as lawfully brought under the administrative control of the other, would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes."

## THE PHILIPPINES

Article 4 of the Mutual Defense Treaty with Republic of the Philippines states as follows:

"Each party recognizes that an armed attack in the Pacific area on either of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common dangers in accordance with its constitutional processes."

Mr. GARY. That is all I have, Mr. Chairman.

Mr. PASSMAN. Mr. Natcher?

Mr. NATCHER. No questions at this time, Mr. Chairman.

Mr. PASSMAN. Mr. Ford?

AUTHORITY TO TRANSFER DEFENSE STOCKS AND SERVICES TO MILITARY ASSISTANCE PROGRAM

Mr. FORD. Mr. Secretary, in your prepared statement and in the statement by Secretary Rusk this morning you mentioned section 510.

Secretary McNAMARA. Yes.

Mr. FORD. I have before me the proposed language which has been submitted to the authorizing committees for section 510.

You are very familiar with the reprogramming procedures we have with the Defense Department in the interested committees where any Defense Department reprogrammings with certain dollar limitations, must be not only reported but approval given.

The language in this proposed paragraph says, and I quote,

Prompt notice of action taken under this subsection shall be given the Committees on Foreign Relations, Appropriations and Armed Services of the Senate and the Speaker of the House of Representatives.

This whole paragraph, if approved as it is, gives to the President the authority to transfer up to \$400 million per year from Army, Navy, or Air Force stocks, simply on notice without approval.

Don't you think that goes beyond the kind of arrangement we have?

Secretary McNAMARA. It does. It definitely does go beyond and for the reason that here we are dealing with 60 different countries and a much more limited opportunity for reprogramming within the \$1,885 million exists. That is the first point I would make. Secondly, it goes beyond it in the sense that there is no request for reprogramming authority as between the domestic military budget and the military aid programs. This provision is included because in so many instances we must act very quickly, and in the event Congress were out of session, we would need to go ahead.

The \$400 million authority is an alternative to increasing the budget. If the committee felt that we were going beyond a reasonable request here, perhaps we could work out some kind of an agreed reprogramming procedure under which we would apply to this committee the same procedures that have been authorized for application by the other subcommittee that you are a member of and under the terms of that procedure, at least while the committee is in session, I think we could operate very satisfactorily. We would hope there would be some provision that when the committee was not available that we could move ahead because in these international areas we face crises that require immediate action.

Mr. FORD. I think some alternative provision can be worked out. It seems to me that this authority is much too broad. I strongly feel that not only this committee but primarily the Defense subcommittees ought to have some notice and opportunity for approval and rejection of such contemplated action. After all, the Defense subcommittee made the money available that provided the stocks that are to be transferred to this program.

Secretary McNAMARA. With some provision for obtaining approval, or at least allowing action at a time when the committees were not in session, I would be delighted to see it modified to that extent.

Mr. PASSMAN. Will the gentlemen yield?

Mr. FORD. Yes.

Mr. PASSMAN. Would this not, in effect, just be providing an additional \$400 million?

Secretary McNAMARA. Definitely not. That is the entire purpose of this paragraph, to avoid that kind of a budget.

Mr. PASSMAN. It would require \$400 million to replace it, would it not?

Secretary McNAMARA. If it were used.

Mr. PASSMAN. Would this not, in effect, just be providing an additional \$400 million appropriation; would it not?

Secretary McNAMARA. It would be, but the difference here is that this is not appropriated. There is great pressure on us not to use it. This is a much tighter form of fiscal control than would exist were we to ask for approval of a contingency fund and put it in the budget.

Mr. PASSMAN. Under the authority, who would determine the emergency?

Secretary McNAMARA. The President, but only if he determined it to be "vital" to the security of the United States.

Mr. PASSMAN. If you expended the equivalent of the full \$400 million additional appropriation?

Secretary McNAMARA. Yes. I am sure that you have as much confidence as I do that the President would not authorize expenditure of any or all of this amount unless it was vital to the security of the United States. If it were vital to the security of the United States, I think we all agree it would be wise to spend it.

Mr. PASSMAN. If the appropriations committees and the Congress should grant all of the authorizations requested in the amounts of money requested, in all probability the additional total would be many billions of dollars this year. We have to cut back on some of these items and take income into account. This appears to be just a way of loosening it up.

Secretary McNAMARA. Mr. Chairman, if I may make just one comment: This is not a way to loosen control over funds, but quite the contrary. The normal way is to pad the budget but we cut this budget to the bone and when we have done that we have left no funds in it to take care of emergencies which are so very difficult to predict in this entire foreign field. In the event we face an emergency we have only three alternatives. We either do not finance it and run the risk which results to our security—steal, and that is exactly the word, from some other part of the program which disrupts planning in that area—or propose a provision such as this. I am sure this will lead to tighter financial control than any of the other alternatives.

Mr. PASSMAN. In the justifications we find provision for many contingencies set up in the regular appropriation.

Secretary McNAMARA. I beg your pardon. There are not many contingencies. There are no—

Mr. PASSMAN. There is provision for meeting emergency needs in Laos and other southeast Asia countries as they may arise, and this is contained in the budget request of ——— million for continuing operations.

Secretary McNAMARA. There are not many—

Mr. PASSMAN. It is in writing.

Secretary McNAMARA. There are not many contingency funds. This budget of \$1,885 million has ——— million in it for South America unallocated; ——— million in Africa unallocated; and the amount of which you spoke in southeast Asia.

Mr. PASSMAN. The amount has reached \$75 million already.

Secretary McNAMARA. Right; but since we prepared this budget, these requirements on those amounts have risen. This budget was prepared last October and I definitely feel that this is the tightest possible form of financial control.

Mr. FORD. May I read some language from section 510, Mr. Secretary. This is on lines 22, 23, and 24 of the proposed draft:

\* \* \* Subject to subsequent reimbursement, therefore, from subsequent appropriations available for military assistance.

It seems to me that the Defense Department by this provision is potentially gambling with its own stocks, because you are relying on subsequent requests and appropriations. In my opinion, this is far too contingent as far as our own Defense Department is concerned.

Secretary McNAMARA. I do not believe we are gambling with the Defense Department stocks. I think we are gambling with the future military assistance program because the language as we interpret it

means that if a truck, for example, is transferred from the Defense Department stocks to the military assistance program we would have authority to obligate the funds to replace that truck immediately.

The Defense Department's stock, therefore, is replenished as promptly as we procure the stock.

Mr. Ford. As promptly as you get the money from the military assistance program?

Secretary McNAMARA. As promptly as we procure the truck. However, we must then cover that appropriation out of the next year's military assistance program. If this committee, or other committees of the Congress, were to limit us to a total that did not provide for that recoupment, we would nonetheless have to take it out of that program and that would mean that we would endanger the program.

I would say that provision risks the future military assistance program but not the domestic defense program. This was drawn particularly with that objective in mind, and I believe the language provides for it. If it does not, we misdrafted it.

Mr. Ford. As I recall somebody's prepared statement today, they said that this proviso was inserted in order to handle possible problems better than the way they were handled at the time of the Lebanese and Formosan Straits difficulties.

As I recall, that equipment was made available to handle those contingencies in 1958, and then in January of the following year, a request was made in the military budget for supplemental funds to make up the equipment which was utilized.

Is that not a more direct way of handling it than through this procedure?

Secretary McNAMARA. I think that we need to distinguish between two kinds of expenditures. One would be the extra expenditures associated with moving fleets, for example, to Lebanese waters. Those costs would have come out of the Defense Department budget and a supplemental therefor would have been needed and no doubt was requested.

The second type of expenditure associated with such an emergency would be the kind we have had in connection with Laos where it was necessary to supply equipment to the Lao Army. This equipment was expended in combat and had to be resupplied. Those types of expenditures must be charged to the military assistance program and we have no source of funds to provide for those within the year unless they are covered in this detailed list of items.

Mr. Ford. Let us take the Formosa situation. If my memory serves me correctly, we moved some missile units out to the Island of Formosa. We also moved in some fighter planes, as I recall.

Secretary McNAMARA. Yes, sir.

Mr. Ford. How was that handled? Was that handled through a request through our own military budget in the supplemental to repay the Army and Air Force or was it handled by a roundabout way such as proposed here?

Secretary McNAMARA. To the extent that we retain ownership, it is charged to the Defense Department budget, and to the extent it is a transfer of equipment, to a foreign military department, it is charged to the military assistance budget.

Mr. Bundy mentioned to me that in the case of Taiwan and the incident you mentioned, there was approximately \$200 million extra required of expenditures for Taiwan to be charged to the Military Assistance Program. I assume, although I do not know the particular situation in 1958, those figures were not included in the Military Assistance Program and therefore required a reshaping of the whole program with all the attendant misplanning that occurs from that.

OBLIGATION OF MEMBERS OF MILITARY PACTS IN EVENT OF ATTACK ON ONE MEMBER

Mr. FORD. On page 4 of your statement, Mr. Secretary, a full paragraph covers this. In the second sentence, you say:

\* \* \* Vietnam today is a classic example of how these threats feed on and reinforce each other.

Subsequently in the same paragraph you say:

Should they suffer an open attack across their borders, we look for local forces to resist the initial thrust until such time as free-world forces may come to their support.

Does that mean that if we supply, as we have in the past, Vietnamese forces, this is predicated upon our taking affirmative action if Vietnam is attacked in the future?

(Discussion off the record.)

Secretary McNAMARA. It is, in many cases, an intention rather than a formal commitment. Situations differ, depending on bilateral agreements; and in many of them we have no formal commitment requiring support at the time of overt aggression or invasion.

Mr. FORD. I gather we did not have one in Laos then?

(Discussion off the record.)

Mr. FORD. What would we say in Thailand?

Secretary McNAMARA. I would have to ask Mr. Bundy.

Mr. BUNDY. Thailand is a signatory of SEATO.

Secretary McNAMARA. It is a little clearer, but I would still wish to read the exact language of the agreements. If you wish, we will furnish that for the record.

I read the NATO language the other day, just on this exact point, and it is very, very clear that an attack on one is an attack on all. There is absolutely no question about it.

Mr. FORD. What about Formosa or Taiwan?

Secretary McNAMARA. I do not recall reading that recently.

General LEMNITZER. In the case of Taiwan, the extent of that country's obligation is dependent upon a determination of the President.

Mr. FORD. They cannot obligate us?

General LEMNITZER. I would have to see the language before giving you a precise answer.

Mr. FORD. Whatever the language is?

Secretary McNAMARA. In any event, that is why we used "may" instead of "must" or "will."

Mr. RHODES. Will the gentleman yield?

Mr. FORD. Yes.

Mr. RHODES. Off the record.

(Discussion off the record.)

Mr. RHODES. That is exactly what I thought you were saying and that is as clear a statement as I could imagine.

That is all.

#### IMPORTANCE OF MILITARY ASSISTANCE PROGRAM

Mr. FORD. General Lemnitzer, in your statement on page 2, you say:

\* \* \* No amount of money spent on our forces could give the United States as comparable an asset as a trained, well-equipped force familiar with the terrain and in suitable position for immediate resistance to local aggression.

Then on the last page in the last paragraph, and I will not read it, you indicate that the Chiefs of Staff have endorsed unanimously the essentiality of the military assistance program.

Does that mean that, in your judgment, we should not reduce these appropriations for military assistance any more than we would take action to reduce the appropriations for our own military programs?

General LEMNITZER. We have evaluated the program for fiscal year 1962 in relationship to the plans of our unified commanders overseas. We have examined force objectives to be sure that allied forces will complement our own forces. The force levels which have been set as program objectives have been studied at all levels, and the program details have been prepared to support those forces. The Joint Chiefs of Staff believe that the fiscal year 1962 program is a minimum program.

With respect to some fiscal year 1962 country programs, there have been reductions compared with the programs of last year.

Mr. FORD. The intent of my question is to compare the essentiality of the military assistance programs with the essentiality of Defense Department programs in the eyes, or in the view, of the Joint Chiefs of Staff.

General LEMNITZER. The Joint Chiefs of Staff regard the two programs as complementary. While the program cannot be precisely compared, we believe that dollar for dollar we do get a greater amount of defense through this program than we could get by putting an equivalent amount of money into our own defense programs.

Mr. FORD. In other words, you defend this part of the mutual security program budget as ardently as you defend the Defense budget for the United States?

General LEMNITZER. I do.

Mr. FORD. That is all, Mr. Chairman.

Mr. PASSMAN. It is not expected that all of the members of this committee will always agree, and we disagreed last year on the amount needed for the military assistance program. On the floor of the House the item was increased by \$200 million.

Bearing out the contention of the majority of the subcommittee and the full committee, before the bill reached the House, and we find this as a matter of record, they said:

The above fund of availability, which totals \$1,964 million, has been reduced by a transfer of \$50 million out of the military assistance program to the President's contingency fund to be used in financing nonmilitary assistance projects.

If that fact does not indicate the program had more military funds than could be obligated prudently, then I do not know how to read this language.

Secretary McNAMARA. May I mention, however, that it will be \$15 million instead of \$50 million, Mr. Chairman. That is \$15 million out of about \$1.9 billion.

Mr. PASSMAN. This is from the mutual security report of June 1, 1961, and today is only June 29.

How in the world do you expect this committee to ever arrive at a sound conclusion, if your figures are that unreliable?

Secretary McNAMARA. May I answer? This is a fairly important point and this is exactly the reason we need this section 510. The world is changing fast and in the 4 months I have been here, or 5 months, one crisis after another has happened to the point where we do not know how we are financing a large part of the program we have.

The \$50 million you are speaking about was thought to be needed for a high-priority purpose for which the President found it necessary to spend, but we, on the other hand, are spending funds on Laos which we had not provided for in the budget. We have had to juggle these funds to get through, hopefully, June 30.

Mr. PASSMAN. I am not going to take the liberty of quoting the President at this point, Mr. Secretary, and I suppose that you are not going to do so, either.

Secretary McNAMARA. I would emphasize for the record that the amount of net transfer was \$15 million.

Mr. PASSMAN. This information is supposed to be as of June 1, and today is only June 29, so we are glad to get the record straight on this.

If you wish, you may take this whole thing back and bring it up to date, or otherwise we are apparently wasting a lot of your time and our time.

General PALMER. I have a complete answer on this now and I will have the next time you see me, Mr. Chairman.

Mr. PASSMAN. Is it a good and accurate answer?

General PALMER. Yes; it is good and accurate.

Mr. PASSMAN. I repeat, I am not going to elaborate here on my understanding from a meeting with the President on a \$1.8 billion budget request for military aid.

When was the budget made up? When did you arrive at this figure?

Secretary McNAMARA. The budget was made up at the military assistance missions last fall and it has been reviewed by them several times since. It was reviewed by the State and Defense Departments last fall and by President Eisenhower late in the winter. Subsequently it was reviewed by the current administration several different times.

As you know, President Kennedy submitted a budget of \$1.6 billion in March, but the change in the international situation required modification of that budget. The most recent budget was submitted May 25.

Mr. PASSMAN. Mr. Secretary, you are dealing with something fairly current. President Eisenhower requested \$1.8 billion for the military program; then President Kennedy, in March, indicated the need was for \$1.6 billion, and later raised it to the previous \$1.8 billion figure. Now, you are asking for an addition \$400 million?

Is it not just that simple? I do not want to waste your time over the next 7 or 8 weeks in playing with loaded dice. This is no reflection, but if this is stacked, why waste time?

AUTHORITY TO TRANSFER DEFENSE STOCKS AND SERVICES TO MAP

If this committee, after long deliberation, with many witnesses coming down here to testify, should decide to make a reduction, we shall say, of \$100 million, and, then, if after we go home, the President should feel the Congress had made a reduction of too much, and that an emergency existed, he could immediately replace it out of the \$400 million, if you should get that legislation?

Secretary McNAMARA. No, sir.

Mr. PASSMAN. If he should decide that world conditions warranted it?

Secretary McNAMARA. No, sir.

Mr. PASSMAN. If the committee and the Congress had reduced the amount by \$100 million, and Congress adjourned sine die and went home, and you started obligating the funds, and then the President should decide that an emergency existed, and you needed more than the Congress appropriated, and you could transfer out of the \$400 million; would you not have that right, under the legislation?

Secretary McNAMARA. No; I do not believe so. Not for this purpose.

Mr. PASSMAN. When would you have the right to use it?

Secretary McNAMARA. Only when the situation was such as to make the expenditure vital to the security of the United States.

Mr. PASSMAN. Who will make that decision?

Secretary McNAMARA. The President will.

Mr. PASSMAN. That is my question. If the President should, immediately after the Congress adjourns, decide that a need exists for the \$100 million, which we used as an example of the amount of a congressional reduction, for the security of the United States, he could then transfer the \$100 million; could he not?

Secretary McNAMARA. I think under those circumstances I would say "No."

Mr. FORD. Would the Chairman yield?

Mr. PASSMAN. If I may finish this, please. If the President made such a decision, who would override his decision?

Secretary McNAMARA. He would make this decision under a specific situation. When it would be vital to the security of the United States. These words are very carefully chosen.

Mr. PASSMAN. If the President should decide, immediately after the Congress adjourns sine die, that it is vital to the security of the United States to draw immediately on the \$400 million, he would have the right, would he not?

Secretary McNAMARA. Under those circumstances, no.

Mr. PASSMAN. Then, why do you want it in there?

Secretary McNAMARA. You said immediately after you left.

Mr. PASSMAN. Let us say 60 days after congressional adjournment. What period would you draw on?

Secretary McNAMARA. If the situation developed in such a way as to provide a set of facts that would allow him to reach the conclusion that the expenditures were required and were vital to the security of

the United States, he would have the power, under this provision, to spend the money.

Mr. PASSMAN. The President would make the decision, whether it is 2 days or 2 months?

Secretary McNAMARA. I do not believe so. I do not believe within—

Mr. PASSMAN. In what manner is the time element involved?

Secretary McNAMARA. I think the time element there is very important.

Mr. PASSMAN. Are you going to write into the language of the bill a limitation that the President, regardless of conditions, cannot draw on the \$400 million unless we have been gone a certain number of days?

Secretary McNAMARA. I think you must recognize the integrity of the President and his judgment. I doubt very much whether circumstances would permit him to reach this judgment immediately after you left.

Mr. PASSMAN. Mr. Secretary, the President does not actually run this, but follows the suggestions of his subordinates, and we all know that. The President cannot run this whole show. There is no question about his integrity.

I want you to know that in one year the very day these people got their appropriation, they started allocating funds out of the President's contingency fund into the program for defense support.

I want the record to show that it is a fact. The executive branch started allocating funds out of the contingency fund, into defense support, the first day. They did not wait for any emergency to arise. They said, in effect, "the heck with the committee, the heck with the authorization, and the heck with the Congress."

Secretary McNAMARA. As members of the executive branch we have a responsibility to Congress to act in accordance with the intent of Congress and I would never, much as I might disagree with that intent, consciously violate it. I would consider the action you are describing, whether taken or not, I do not know—

Mr. PASSMAN. It was so taken, or I would not have said that it was.

Secretary McNAMARA (continuing). Contrary to the intent of Congress; I think it would be a mistake for the executive branch to operate in that way.

Mr. PASSMAN. I do not make statements of such importance without having the record on my side.

I am glad to hear you do not think that is the way to do it.

Secretary McNAMARA. Any action contrary to the intent of Congress is not authorized and, therefore, we would not act in that way. That is why I appear to be speaking rather specifically about this particular language. This language is put in to allow the President to act in the interests of the Nation in a situation which was unanticipated and it is only for that purpose.

Mr. PASSMAN. Those people who went contrary to the intent of Congress on the same day the appropriation was received, must not have thought the same thing.

Mr. FORD. Would the gentleman yield?

Mr. PASSMAN. Yes.

Mr. FORD. With all due deference to you, Mr. Secretary, the language says:

The President may, if he determines it to be vital to the security of the United States or to the defense, withdraw articles from the stocks of the Department of Defense and defense services for the purpose of part II.

He has to give notice promptly to various committees and to various legislative officials, but there is no check on his decision by the Congress under the language on his determination?

Secretary McNAMARA. That is correct.

Mr. FORD. Supposing this amount were cut from \$1,885 million to \$1,685 million and then Congress adjourned. Sixty days later, it was determined by him, the President—and I have just as much respect for him as anybody else—that the security of the United States required the withdrawal of Defense Department stocks to the extent of \$200 million, his decision stands. Under this language his decision is the sole test and nobody else can change it.

Secretary McNAMARA. That is correct, if the situation is such that it provides him a foundation for that determination.

Mr. FORD. But he makes that determination?

Secretary McNAMARA. He makes that determination; that is quite right.

Mr. FORD. I do not say he would willfully violate sound judgment. In fact I say he would not, but literally he is the only person who makes that determination.

Secretary McNAMARA. That is correct; and as I said earlier, if the committee believes it is best to apply here the reprogramming process that covers transfers within the domestic defense program, I would be quite happy to endeavor to operate within that procedure, with the qualification that if the committees are not in session we need some kind of authority because international crises are such that we must act immediately.

Mr. FORD. That brings up another point. By the inclusion of this language and any safety valve as far as Congress is concerned you may be hamstringing yourself more than if you did not have the language.

Secretary McNAMARA. We could still do that within the limits of the program without the provisions you mention. This is one thing that leads to the deficiencies mentioned in the report on Taiwan. It would mean we would have to scrap the deliveries, say, for South Vietnam and transfer them to Taiwan. When we do that, you can imagine what it does to their recordkeeping and their forecasting and their 5-year planning. The injection of sudden precipitous changes of that kind actually weakens the entire program.

I would be happy to see this provision modified in any way that the committee would think would lead to a more effective control. We do not desire to have unlimited expenditures open to us.

Mr. FORD. In order to get it to conform to procedures in the Defense Department which, to my knowledge, have worked reasonably well, I think we should have some change in this.

Mr. PASSMAN. Mr. Secretary, the Congress thought that matter had been reasonably well taken care of by giving the executive branch

the right to transfer out of one fund into another. Do you not have that right, under the law?

Secretary McNAMARA. Up to a total of 10 percent.

#### USE OF CONTINGENCY FUND

Mr. PASSMAN. Certainly, there is a limitation. In addition, of course, the President also had his contingency fund. He could use that, could he not?

Secretary McNAMARA. No, sir. You are speaking of the \$500 million under one of these provisions?

Mr. PASSMAN. The Congress provides for the President a contingency fund, which he can use for any purpose; can he not?

Secretary McNAMARA. Are we speaking of section 451 of the bill?

Mr. PASSMAN. Probably we are. Nevertheless, the Congress has never questioned the President as to the uses he has made of the contingency fund.

Secretary McNAMARA. I think you may be referring to what is covered this year by section 451. There is a different provision this year than last year.

This is an important change and it acts to further tighten the control over military assistance expenditures. We are doing everything we can to cut out the fat in this program.

Mr. PASSMAN. You are taking the fat out by increasing your request?

Secretary McNAMARA. This I disagree with.

Mr. PASSMAN. President Eisenhower wanted \$1.8 billion; President Kennedy said \$1.6 billion. Now it is up to \$1.865 billion, plus the standby of \$400 million. It looks to me as if you are putting fat in.

Secretary McNAMARA. The international situation has changed to the extent of requiring this and, as General Lemnitzer said, we consider this vital.

Mr. PASSMAN. I respect your views, but there have been emergencies throughout the 15 years I have been in Congress, and the 13 years I have been on this committee. There is practically always an emergency.

Mr. Taber, I yield to you.

Mr. TABER. I do not know that I have any questions.

The determination of what is going into this bill that we report out is, at the very least, 2 months off, and I very seriously doubt if the questions I would ask would have any serious bearing on the markup at this date.

I am very much inclined to believe we will have to get somebody down from the Military Establishment and get a legitimate demand out of the services.

That is all, Mr. Chairman.

Secretary McNAMARA. I will be happy to return myself, sir, later to answer any questions.

Mr. TABER. Off the record.

(Discussion off the record.)

Mr. TABER. There are a lot of things, Mr. Chairman, they can unravel themselves if we give them a chance.

Mr. PASSMAN. Of course, when we must wait until we see the adjournment curtain coming down it is rather difficult to consider this bill in adequate detail. It is unfortunate that we have to start our hearings prior to the enactment of the authorizing legislation. However, this is a practice of long standing, perhaps with one or two exceptions. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Rhodes?

#### ASSISTANCE TO JAPAN

Mr. RHODES. I notice on page 9 that you ask for ——— million for Japan. We had the pleasure of listening to the Prime Minister of Japan not long ago. He said his nation does not need any more money. Why do we keep forcing money on them?

Secretary McNAMARA. Let me say the answer is two-fold: A major part is to carry out previous commitments that I think are in a sense contractual obligations.

Mr. RHODES. I would agree with that.

Secretary McNAMARA. The second major part is for provision of an air defense system for the protection of both our forces and theirs. This they tell us they cannot finance and I believe in this fiscal year 1962 they are correct. In following years we think we can avoid military assistance in amounts of that kind.

Mr. RHODES. Mr. Chairman, did not the Prime Minister of Japan say he did not need any more money?

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Would that be a case, Mr. Secretary, where we had made a commitment, and notwithstanding the fact they may not need it today, we are living up to our commitment? Would it be in a category of that nature?

Secretary McNAMARA. I do not believe so. Their gross national product is \$390 per person compared to \$1,800 in this country and the expenditures and amounts we are talking about are more than they can cover within their present budget. We have looked at their budget and their defense budget is \$439 million, which is very close to 10 percent of their total budget.

Mr. PASSMAN. Mr. Secretary, you would be the last person with whom I want to debate this question, but it can confuse a lot of people when you talk about the gross national product. You might take \$390 and live in Japan perhaps about as well as you could take \$1,800 and live in America. Is that not reasonably accurate?

Secretary McNAMARA. No, sir.

Mr. PASSMAN. They have a different standard of living, and if you put it on a unit basis, some of these people are perhaps living fairly well on \$100 equivalent of the gross national product.

Secretary McNAMARA. \$390 versus \$1,800, I think, indicates a wide disparity.

Mr. PASSMAN. They say they are getting along better than they ever have done in the history of the country. I believe you will agree they have made such a statement.

Mr. TABER. They can get along with less calories.

Mr. RHODES. I have difficulty believing ——— will wreck the Japanese economy, but be that as it may, Mr. Secretary, you are very zealous, I believe, to cut expenses and I want to congratulate you on that.

SIZE OF MAAG STAFFS

I wish you would look into the MAAG's. The chairman and members of this committee have seen several in operation and while they are made up mainly of officers thoroughly dedicated, I think there are too many people in many of the MAAG's and I think the size of them can be cut. I think they perhaps can have the various functions more completely correlated than they are now so that in some instances a naval officer can do the work of an Air Force officer and vice versa, for example, without having each service represented, not only in the officers corps but the enlisted corps as well. I wish you would look into that.

Secretary McNAMARA. I understand there are in the order of 6,500 people involved. If we can make any reduction we will certainly look into it.

Mr. RHODES. I am still somewhat disturbed over the language on page 4. I hesitate to take it up any further, but it does bother me that apparently we are going to continue to put military assistance funds into nations which you would call, in your categories on page 4, the second category, without a firm resolve to take the secondary action indicated in your second category to provide support they might need in the event of an all-out attack by the Sino-Russian bloc. I wonder if it is doing them any kindness or the American public any kindness to let them think we will do something we do not intend to do?

Secretary McNAMARA. I think it is just a question of language in this case. I would be happy to accept a modification of language.

Mr. RHODES. I doubt we have a firm commitment to anybody, if I understand you correctly.

Secretary McNAMARA. That is not what I said and is obviously not the condition we are operating under.

Mr. RHODES. Mr. Secretary, actions speak pretty loudly. Words are good, but actions speak louder. It would certainly be my hope that before these hearings are over we can understand better what our intentions are toward these second-category countries, because I am as serious as I can be when I say I do not think we are doing them any favor, and we are certainly not doing the American taxpayers any favor, if we lead them to believe a situation exists which does not exist at all.

That is all.

Mr. PASSMAN. Mr. Conte?

Mr. CONTE. I do not want to take the Secretary's time. I agree with Mr. Taber. I think we should postpone discussion on this point until we see the outcome of the proposal from the authorizing committee.

Mr. TABER. Three-quarters of the questions will be answered by the authorization bill. A lot of the questions will be eliminated before we get through. And a lot more will come alive.

Mr. CONTE. For the record I do want to say I was most pleased with the President's appointment of Secretary McNamara and I com-

pliment Secretary McNamara on his fine presentation and skillful testimony today.

Secretary McNAMARA. Thank you very much.

Mr. PASSMAN. Mr. Secretary, we have appreciated having you before the committee. I believe that when the ultimate decision of the committee is reached you will not have reason to be disappointed. We must get the answers to some of these questions; and I want to repeat, for fear of any misunderstanding, we have no alternative than to start the hearings prior to the enactment of the authorization bill, because if we should wait until we get the authorizing legislation, in all probability it would be too late to have any hearings at all, or very limited hearings. As Mr. Taber said, if we had the authorizing legislation prior to these hearings, no doubt three-fourths of our questions would have already been answered.

I do not think it will be necessary for you to come back, because most of these detailed questions can be answered by General Palmer and others.

Thank you very much, Mr. Secretary, General Lemnitzer, and gentlemen.

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MONDAY, JULY 24, 1961.

## STATEMENT OF THE SECRETARY OF THE TREASURY

### WITNESS

HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Mr. PASSMAN. The subcommittee will come to order.

We have with us this morning the Honorable Douglas Dillon, Secretary of the Treasury, who will make a presentation relative to the funds requested by the executive branch for the foreign aid program.

Mr. Secretary, do you have a statement to make to the committee?

Secretary DILLON. Yes, sir.

I would also like to say one other thing before I start.

The President has asked me to join him for a meeting to consider the Berlin situation at 12:15 this morning and he put the time back because of this meeting. I wondered if that would be convenient?

Of course, I will be able to come back again.

Mr. PASSMAN. Certainly, Mr. Secretary.

Perhaps we should indicate that the hearings will be somewhat more difficult this year than in previous years, as a result of the back-door financing system by which it is proposed to handle a substantial part of the program.

Involved for this fiscal year is a total of some \$6 billion, when we take all phases of the foreign aid program into account.

I wonder if it is going to be convenient for you to remain with us until we actually can pin down some of the information that is needed. Could you give us a general idea as to your plans so that we can plan our work accordingly, Mr. Secretary?

Secretary DILLON. I can come back this afternoon, Mr. Chairman.  
 Mr. PASSMAN. If, out of the \$6 billion, we might save \$1 billion or maybe \$2 billion, that would be, I think, very much in the public interest.

Mr. Secretary, we shall be glad to hear from you at this time.

#### PREPARED STATEMENT

Secretary DILLON. It is a privilege to appear before this committee in behalf of the appropriations requested by the President under the foreign aid legislation submitted by him to the Congress. Since this year I have not had any part in the detailed reproduction of this program, I wish to confine my comments to the major financial aspects of the economic aid program, which are my responsibility as Secretary of the Treasury and Chairman of the National Advisory Council on International Monetary and Financial Problems.

As Secretary of the Treasury, I have the responsibility for financing approved Government programs.

It is precisely because of this heavy responsibility that I hope my belief that an adequate and soundly conceived foreign economic assistance program merits high priority as one of our most pressing national needs will carry some weight with this committee. The program which forms the basis of the appropriations request before you is soundly conceived. It is responsive to our national need for an adequate foreign aid program. It is essential to our own security and well-being and that of the entire free world.

Moreover, it is a program the United States can afford. A total of \$2,878 million is being requested in fiscal 1962 for the Act for International Development. This amount includes authorization to reuse some \$287 million which we currently expect to receive from dollar repayments of previous foreign loans. It also includes authority to borrow \$900 million from the Treasury for development loans. In addition, the military assistance request for 1962 amounts to \$1,885 million. This makes up an overall program of \$4,763 million, excluding funds carried over from previous years' appropriations. The total cost of the program amounts to less than 1 percent of our gross national product—a figure well within the capacity of our economy.

The President's program also includes a request for authority to borrow from the Treasury \$1,600 million for each of the following 4 years, as well as authority to reuse the dollars from repayments on earlier foreign loans in each of these years. These repayments are expected to average about \$300 million annually.

I am only too well aware that there are some who single out this program and seek to attribute to it alone the prospective excess of expenditures over receipts in the overall budget for fiscal year 1962. This, of course, is not the case.

For as this committee knows, only a fraction of the new request for funds will result in expenditures during fiscal year 1962. Estimated expenditures under this and previous foreign economic aid programs in 1962 are \$1,950 million. Together with military aid expenditures this means a total of \$3,650 million—approximately the same as the estimate contained in the budget presented to the Congress by President Eisenhower. Expenditures in ensuing years will, of course, be taken into account in the presentation of the budgets for those years.

On the revenue side of our budget, income in the coming fiscal year will still substantially reflect the recession level earnings of the first half of calendar 1961. Because of our growing national needs and these reduced recession revenues, an excess of expenditures over receipts is envisaged for fiscal 1962. Parenthetically, I might say that this is not at all unusual in the year immediately following a period of recession. Moreover, our unused plant capacity and our excessive unemployment will prevent the budget deficit we face next year from having inflationary results. Looking forward to fiscal year 1963, our revenues are expected to increase substantially and should be adequate to meet all of our national needs, both foreign and domestic.

#### BALANCE OF PAYMENTS

Now, you may well ask, what is the relationship of the foreign economic assistance program to our balance of payments? This is a matter that especially interests me as Secretary of the Treasury. The program proposed is consistent with our efforts to achieve and sustain overall balance in our international payments. I wish to emphasize that it is the form in which aid is extended—rather than the amount to be provided—that is most relevant to this question. Under the new program—as at present—we will continue to place primary emphasis on the purchase of U.S. goods and services by aid recipients. The preponderant bulk of foreign aid expenditures will be made in the United States. Such expenditures—which are accompanied by American exports—have no adverse impact on our balance of payments. The fact that foreign assistance has been largely accompanied by an outflow of American exports is not well understood by those who seek to cure our balance-of-payments deficit by curtailing foreign economic assistance.

For as long as our international payments situation requires, in administering the Act for International Development, insofar as the procurement of goods and services is involved, our objective will be to reserve between 75 and 80 percent of the available funds for procurement of U.S. goods and services. Because of earlier commitments, this goal cannot be achieved immediately, but our efforts in this direction will have an increasingly favorable effect on our balance-of-payments position.

It is not in every case practicable or even desirable to require that foreign-assistance funds be limited exclusively to the procurement of U.S. goods and services. In some cases, particular commodities financed by aid dollars are not available in the United States, or may not be available here in the time required. Also, there are certain situations that sometimes require the transfer of aid through cash grants, a part of which is ultimately spent for the goods of other coun-

tries. Nevertheless, through our procurement policy we will hold to a minimum any adverse effect of aid spending on our balance-of-payments situation. I am satisfied that the present directives are adequate to assure this result.

LONG-TERM COMMITMENT AND "BACK-DOOR" FINANCING REQUESTED FOR  
LENDING OPERATION OF ECONOMIC AID PROGRAM

Now I would like to turn to another major aspect of the economic aid program—one that is at the very heart of the new proposal. It is the need for long-term authority to finance development lending. To meet this need, the President has recommended financing the development lending portion of the overall aid program by borrowing from the Treasury. I have heard this criticized on three scores; that it is an attempt to avoid coming to this committee for funds for economic assistance; that it would supposedly eliminate fiscal responsibility; and that it would force the Treasury into increasing the public debt. I do not feel that these criticisms are warranted.

They are not warranted because the President's proposals are, in my judgment, not only essential to the effective implementation of the program, but are entirely proper for this kind of program. They are not designed to avoid established legislative and executive branch procedures—nor would they. They are necessary as the most practical way of carrying out a sound development lending program which will deal with the basic needs of a developing country and will provide incentive for such a country to thoroughly organize its plans and to adopt appropriate measures of self-help and undertake basic and difficult reforms essential to development. I am convinced from my experience in the Department of State that long-term financing authority is an essential tool for the achievement of our foreign policy objectives. I am equally convinced as Secretary of the Treasury that this is the most efficient and least costly method of providing development assistance.

As President Kennedy stated in his letter transmitting the draft foreign assistance bill, "real progress in economic development cannot be achieved by annual short-term dispensation of aid and uncertainties as to future intentions." I am sure the committee is aware of the insistent pressures for stop-gap financing that arise each year under the present system. I am hopeful you will appreciate that an adequate long-term program is essential to meet long-range needs, and at less cost.

In my judgment, the inability of the Executive to make long-term commitments diminishes the effectiveness and increases the ultimate cost of the foreign aid program. Reasonable assurance of outside assistance extending over a period of years may often mean the difference between success or failure in the efforts of a country to carry out the measures requisite to effective development. Legislative authority to make multi-year commitments will also provide an incentive to other industrialized countries to join with the United States in providing aid to developing areas.

## GRANTS TO BE FINANCED BY ANNUAL APPROPRIATIONS

It is for these reasons that the President has requested that development loans be financed by borrowing from the Treasury. This method would be used only for development loans, and specific ceilings would be established limiting the amount of borrowing authority to be exercised annually. All loan transactions making use of this authority would be in dollars. All repayments would be in dollars. Grants or other forms of assistance connected with the foreign aid program would continue to be financed by annual appropriations.

## OTHER PROGRAMS AND AGENCIES HAVING "BACK-DOOR" FINANCING

It is a common practice to finance lending operations of U.S. agencies through loans and advances from the Treasury. The Treasury uses this method to finance the programs of more than 20 agencies in accordance with the statutes governing the activities of the particular agency. A list of legislative authorizations currently in effect for financing governmental activities through the borrowing method is attached to this statement. (See p. 117.)

## CONGRESSIONAL CONTROL OVER LENDING OPERATION

This fiscal arrangement need not—and will not—mean any loss of legislative control over expenditures. The funds will be available only for the purposes and in the amounts approved by the Congress. Under the proposed legislation, specific congressional control over the lending program would be exercised in each year of the 5-year period in a number of ways:

First, the basic law, which is now before the Congress, would determine the availability of the funds year by year.

Second, the enabling act will require that certain specific criteria be applied in the administration of the loan program.

Third, the Congress, if it so desired, could, by amendment of the basic law, take away at any time what it had originally given. It would be kept informed through quarterly reports as required by the law and an annual presentation would be made to the authorizing committees of the Congress covering all development lending operations.

Fourth, an annual presentation also would be made to the Appropriations Committees of the Congress in accordance with the provisions of the Government Corporation Control Act.

As applied to the development lending program it is my understanding that the following procedure would prevail:

(1) The President would annually submit a budget showing both obligations and expenditures for the contemplated program, in accordance with law.

(2) The Congress would have the responsibility of reviewing the program and acting to authorize the use of the borrowing authority and all available receipts year by year. In accordance with past practice from which there has been no deviation this review would take place in the first instance in the Appropriations Committees of the respective Houses in the same manner as all other budget proposals. The authorization for the use of funds would similarly appear in an appropriation bill.

(3) Congress could limit the use of funds in accordance with its judgment. Limitations could be proposed by the Appropriations Committees or by amendment to the bill on the floor of either House in the same manner as Congress acts with respect to all other items in an appropriation bill. Of course, it is presumed that in accordance with legislative practice under the Government Corporation Control Act, modifications or limitations would only be imposed in special or unusual circumstances.

(4) The executive branch would be limited, both as to obligations and expenditures, by the amounts made available in the substantive act or in the appropriation act, whichever is the more limiting.

(5) In any event the Executive branch could not firmly obligate and could not expend borrowing authority prior to the date on which it becomes available under the substantive act. However, it could enter into conditional commitments which would be specifically subject to the money becoming available at a later date, and these would be valid only to the extent that the money became available under the congressional procedures described.

The amounts to be borrowed under the proposed legislation would be included each year in the budget as new obligational authority in the same manner as other appropriations. Similarly, expenditures would appear in the regular expenditures budget. As far as the budget is concerned, there is not the slightest difference between this method of funding and the appropriation process heretofore used for this program.

Borrowing from the Treasury under the Act for International Development would not mean that the Treasury would be forced into any additional borrowing from the public. To put it another way, the extent to which the Treasury may have to increase the public debt—or alternatively rely upon tax or other income—is exactly the same, whether foreign development lending is financed by the borrowing method or by funds otherwise appropriated. The requirements of this and all other programs, foreign and domestic, determine the amount of overall expenditure which must be met by the receipts of the Treasury.

## REPAYMENT OF LOANS IN DOLLARS

The financing of development loans by borrowing authority was recommended by President Eisenhower in 1957 at the inception of the Development Loan Fund. As you know, the Development Loan Fund is authorized to make loans repayable in local currency—that is, repayable in the currency of the borrower, rather than in dollars. Experience has made it desirable to change this policy. It is now proposed that all development loans under the new program be repaid exclusively in dollars.

## REQUEST FOR AUTHORITY TO USE DOLLARS REALIZED FROM PRIOR LOANS

The President has also requested authority to make available for development lending the dollars to be realized from repayments of earlier foreign obligations. This request is confined to outstanding obligations in which the United States has the option to require dollar repayment. The amounts will approximate \$300 million a year for the next 5 years. This is a reasonable extension of the revolving fund principle that has been used in many other lending programs. It would, in brief, put the returns from our earlier aid to industrialized countries actively to work in our present program of helping the newly developing countries.

If the United States and the other industrialized countries of the free world fully cooperate in a program of providing assistance to the developing areas—a program based upon the self-help efforts of the developing countries themselves—we can look forward to tangible progress for the hundreds of millions of people in lands less fortunate economically than our own. Their economic progress is, to no small degree, dependent upon us. Our own future in large measure depends upon their future growth and prosperity. The President's economic aid program is essential to meet the need.

## Other programs and agencies having "back door" financing:

*Agencies and special programs authorized to be financed by borrowings from the Treasury as public debt transactions as of May 31, 1961*

<i>Agency or special program</i>	<i>Date of initial authority to borrow from the Treasury</i>
Commodity Credit Corporation.....	Mar. 8, 1938
Export-Import Bank of Washington.....	July 31, 1945
Federal Deposit Insurance Corporation <sup>1</sup> .....	Sept. 21, 1950
Federal home loan banks <sup>1</sup> .....	June 27, 1950
Federal National Mortgage Association <sup>2</sup> .....	Sept. 7, 1950
Management and liquidating functions.....	Aug. 2, 1954
Secondary market operations.....	Do.
Special assistance functions.....	Do.
Federal Savings and Loan Insurance Corporation <sup>1</sup> .....	June 27, 1950
Housing and Home Finance Agency: (Office of Administrator).....	Apr. 20, 1950
College housing.....	
Flood insurance.....	Aug. 7, 1956
Public facility loans.....	Aug. 11, 1955
Urban renewal program.....	July 15, 1949
Interior Department, Helium Act, as amended <sup>3</sup> .....	Sept. 13, 1960
International Cooperation Administration:	
Loan to Spain.....	
Mutual defense assistant program.....	Apr. 3, 1948
India emergency food aid.....	June 15, 1951
Foreign investment guaranteed fund <sup>1</sup> .....	July 18, 1956
Panama Canal Company <sup>1</sup> .....	Aug. 25, 1959
Public Housing Administration.....	Sept. 1, 1937
Rural Electrification Administration.....	July 30, 1947
St. Lawrence Seaway Development Corporation.....	May 13, 1954
Secretary of Agriculture:	
Farmers' Home Administration:	
Regular loans <sup>4</sup> .....	July 30, 1947
Farm tenant mortgage insurance fund.....	Aug. 14, 1946
Farm Housing loans <sup>5</sup> .....	Oct. 14, 1949
Secretary of Commerce:	
Maritime Administration: Federal ship mortgage insurance program.....	July 15, 1958
Area Redevelopment Administration <sup>1</sup> .....	May 1, 1961
Secretary of the Treasury: Federal civil defense.....	July 30, 1953
Tennessee Valley Authority <sup>6</sup> .....	Aug. 6, 1959
U.S. Information Agency: Informational media guarantee fund.....	July 18, 1956
Veterans' Administration, direct loan program.....	Apr. 20, 1950
Virgin Islands Corporation <sup>7</sup> .....	May 20, 1959
Defense Production Act of 1950, as amended:	
Export-Import Bank of Washington.....	Sept. 8, 1950
General Services Administration.....	Do.
Secretary of Agriculture.....	Do.
Secretary of the Interior.....	Do.
Secretary of the Treasury.....	Do.
International Bank for Reconstruction and Development.....	July 31, 1945
International Monetary Fund.....	Do.
International Finance Corporation.....	Aug. 11, 1955
Credit to the United Kingdom.....	July 15, 1946

<sup>1</sup> No advances from the Treasury have been made.

<sup>2</sup> Prior to division of the FNMA into 3 programs, the Association borrowed from the Treasury through the Housing and Home Finance Administrator pursuant to Reorganization Plan No. 22 of 1950.

<sup>3</sup> Authorized to borrow such amounts as may be authorized in appropriation acts. As of this date there has been no appropriation enactment.

<sup>4</sup> Authorized in annual appropriation acts. Latest act was approved June 29, 1960.

<sup>5</sup> Act approved July 15, 1949, authorized borrowings as Congress may determine, not in excess of certain amounts. Act approved Oct. 14, 1949, authorized \$25 million to be borrowed from the Treasury.

<sup>6</sup> Borrowings made under an earlier authority have been repaid and the earlier authority has lapsed.

<sup>7</sup> Authorized in annual appropriation acts. Latest act was approved May 13, 1960.

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

#### FOREIGN-HELD, SHORT-TERM DOLLAR ASSETS

If the committee and our distinguished witness will bear with me, I should like to indicate for the record at this point a table showing that: (1) Foreign-held, short-term dollar assets at the calendar year 1952 amounted to \$10,546,100,000; at the end of calendar year 1960, \$21,430,600,000, an increase of \$10,884,500,000. That is double in amount within 8 years.

#### GOLD HOLDINGS OF THE UNITED STATES AND OTHER FREE WORLD COUNTRIES

I also want to indicate for the record that gold holdings in the United States at the end of calendar year 1952 amounted to \$23,252 million, and at the end of calendar year 1960, \$17,766 million, a reduction of \$5,486 million in 8 years.

The rest of the "free world" at the end of 1952 held \$13,028 million in gold and at the end of calendar year 1960, \$19,400 million, an increase of \$6,372 million over the same 8 years.

#### U.S. BALANCE OF PAYMENTS, 1950 THROUGH 1960

I would also like to state for the record the fact that the U.S. balance-of-payments position for the years 1950-60, inclusive, showed a total dollar deficit in the 11 years amounting to \$21,500 million.

#### U.S. PUBLIC DEBT

And I want, too, to indicate for the record at this point the fact that, according to the latest available figures, the U.S. public debt exceeds by about \$23,710,500,000 the combined public debts of the other 100 nations of the world.

## LIST OF RECIPIENT NATIONS IN FOREIGN AID PROGRAM

I shall give a detailed list in the record of all of the nations which have been recipients of the foreign aid program since its inception. (The material referred to follows:)

## COUNTRIES WHICH HAVE RECEIVED MSP AID TO DATE OR ARE PROGRAMED TO RECEIVE IT IN FISCAL YEAR 1962

Afghanistan	Korea (South)
Argentina	Laos
Austria	Lebanon
Belgium	Liberia
Bolivia	Libya
Brazil	Luxembourg
British Guiana	Malagasy Republic*
British Honduras	Mali
Burma	Mauritania*
Cambodia	Mexico
Central African Republic*	Morocco
Ceylon	Nepal
Chad*	Netherlands
Chile	Nicaragua
China (Taiwan)	Niger
Colombia	Nigeria
Congo (Brazzaville)*	Norway
Congo (Leopoldville)*	Pakistan
Costa Rica	Panama
Cuba	Paraguay
Cyprus	Peru
Dahomey	Philippines
Denmark	Poland
Dominican Republic	Portugal
Ecuador	Saudi Arabia
El Salvador	Senegal
Ethiopia	Sierra Leone
Federation of Rhodesia and Nyasaland	Somalia
France	Spain
Gabon*	Sudan
Germany (Federal Republic)	Surinam
Ghana	Sweden
Greece	Tanganyika
Guatemala	Thailand
Guinea	Togo
Haiti	Tunisia
Honduras	Turkey
Iceland	Uganda
India	United Arab Republic
Indonesia	United Kingdom
Iran	Upper Volta
Iraq	Uruguay
Ireland	Venezuela
Israel	Vietnam (South)
Italy	West Indies
Ivory Coast	Yemen
Japan	Yugoslavia
Jordan	Zanzibar
Kenya	

\*U.S. assistance limited to \$50,000 Independence Day gift plus small feasibility study in Malagasy Republic.

NOTE.—Data cover funds authorized and appropriated pursuant to the Mutual Security Acts of 1951 and 1954, and amendments thereto, and certain antecedent programs, particularly the European recovery program.

PROVISION OF THE CONSTITUTION REGARDING WITHDRAWAL OF FUNDS  
FROM THE TREASURY

Mr. PASSMAN. I should like also to read at this point from article 1, section 9, paragraph 7 of the Constitution of the United States, which is contained in the House Rules and Manual on page 52:

No money shall be drawn from the Treasury, but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time.

I want, further, to indicate for the record that the Congress and the country operated for approximately 150 years in accordance with the provisions established by the Constitution. No exception to that Constitutional provision was made until the early 1930's. Since that time, however, there have been many exceptions, which certainly proves that an exception in Government usually becomes a rule. It is somewhat like a temporary agency. It usually becomes a permanent one.

## EXPENDITURES IN 1962

Mr. Secretary, on page 4 of your statement, you say:

I am only too well aware that there are some who single out this program and seek to attribute to it alone the prospective excess of expenditures over receipts in the over-all budget for fiscal year 1962. This, of course, is not the case. For as this committee knows, only a fraction of the new request for funds will result in expenditures during fiscal year 1962.

Is it not also a fact, however, that appropriations made in prior years for the foreign aid program, amounting to about \$5 billion, or maybe \$6 billion, are to be expended in this fiscal year? Even though you may not spend this year the money appropriated in fiscal 1962, you are certainly going to have to draw from the Treasury those billions of dollars required to meet obligations and commitments entered into as a result of appropriations made in prior years.

Secretary DILLON. The estimate of that is \$3,650 million.

Mr. PASSMAN. The estimate which I have received of unexpended funds in the pipeline of the Mutual Security program alone, and not including other phases of foreign aid, amounts to more than \$5.4 billion as of June 30.

Even though I agree with you that relatively little of the money which we appropriate this year will be spent this year, there is a substantial amount appropriated in prior years for the same purpose that will be spent.

Secretary DILLON. I do not think you can attribute an overall deficit to any single program.

Mr. PASSMAN. I am not endeavoring to do so.

Secretary DILLON. That is all I say.

Mr. PASSMAN. You are indicating that you may not obligate in this fiscal year the \$3.6 billion appropriation being requested for fiscal year 1962—

Secretary DILLON. That is what my statement says, \$3,650 million.

Mr. PASSMAN. I quote from your statement:

I am only too well aware that there are some who single out this program and seek to attribute to it alone the prospective excess of expenditures over receipts in the overall budget for fiscal year 1962. This, of course, is not the case.

Your statement, in my opinion, would tend to leave those who read it with the impression that there is going to be such a small amount spent out of what is appropriated in 1962 that it will have very little effect.

We both agree, however, that appropriations from prior years for the same purpose expended in this fiscal year will have a substantial effect. Am I accurate in that observation?

Secretary DILLON. That is what I say, yes.

Mr. GARY. Will the gentleman yield?

Mr. PASSMAN. I yield.

#### EXPENDITURES IN FUTURE YEARS AGAINST FISCAL YEAR 1962 OBLIGATIONS

Mr. GARY. Is it not also true that this money appropriated this year will be obligated this year and will have to be spent in future years?

Secretary DILLON. That is correct.

Mr. PASSMAN. And that, then, throws out of kilter the same amount in subsequent years. Your statement could be misleading to those who read it, if they did not go on to subsequent pages?

Secretary DILLON. Yes, the subsequent paragraph.

Mr. PASSMAN. I think I should indicate for the record, subject to any revisions that may be necessary for accuracy, that during the past 6 years the Congress reduced the President's request by a net total amount of \$4,565 million. Yet, during the same 6 years, notwithstanding charges that we were recklessly wrecking the program, there was a cumulative aggregate of \$1,553,600,000 of unobligated funds.

## SECRETARY DILLON'S LETTER TO MEMBERS OF CONGRESS

Mr. Secretary, may I quote from a letter from Secretary Rusk and yourself? With your assent, I want to state that I received this letter, marked "Personal" and dated July 18, 1961, saying:

\* \* \* The 1961 passage of foreign aid as requested by the President is of such critical importance to our national interest that we are taking this unusual step of communicating with you personally regarding certain key questions that have been raised during the congressional hearings.

You stated in the letter that the—

President's proposal does not ask for any reduction in control of the Congress over the aid program except in a single case, and that Congress itself will establish a policy that a specific amount of funds will be available for stated periods unless reasons of sufficient consequence arise to curtail or revoke them.

## REDUCTION IN APPROPRIATIONS SUBSEQUENT TO APPROVAL OF SPECIFIC AMOUNT OF LENDING AUTHORIZATION

Mr. Secretary, upon the basis of this excerpt from your letter which I have just quoted, I should like to ask: If the Congress should approve what we refer to as the back-door spending approach for financing foreign aid, in the amount, let us say, of \$800 million for fiscal year 1962, and as a part of the proposed 5-year plan; and subsequent to that action, if the Committee on Appropriations, upon investigation and examination, should determine that this amount of money is in excess of actual needs and, accordingly, should make a reduction, let us say, to \$600 million, would the committee's position be accepted by the executive as positive? And, also, would or would it not be subject to a point of order?

Secretary DILLON. I am not an expert on points of order.

Mr. PASSMAN. Then, I withdraw that part and ask you, would it be accepted if the committee should reduce the authority granted by \$200 million, subsequent to the authorization?

Secretary DILLON. I think that, in my statement beginning on page 13, I pointed out rather carefully what the situation would be. On page 15, paragraph 4, it says that:

The executive branch would be limited, both as to obligations and expenditures, by the amounts made available in the substantive act or in the appropriation act, whichever is the more limiting.

That appropriation act would have to take place each year, as I pointed out earlier.

Mr. PASSMAN. One would come before, and one after.

Mr. FORD. Would the Chairman yield?

Mr. PASSMAN. Yes.

PROPOSED PROCEDURE FOR AUTHORIZING AND APPROPRIATING FUNDS

Mr. FORD. When would this submission under the Government Control Act come? Would it be submitted as a part of the appropriation bill for the remainder of the mutual security bill?

Secretary DILLON. Yes; it has been submitted to you as of now wherein the President's supplemental budget message of July 6, 1961 provides under "Development loans:"

There are hereby authorized to be made such expenditures, pursuant to title 1 of chapter 2 of part I—

which refers to the authorization bill not yet passed—

within the limits of funds and borrowing authority available under that title and in accordance with law and such contracts and commitments, without regard to fiscal year limitations as provided in section 104 of the Government Corporation Control Act, as amended, as may be necessary in carrying out the programs set forth in the budget for the current fiscal year for operations under that title.

That is the administration's request and if this committee saw fit to put a limitation in there, they would be perfectly capable of doing it and that limitation would be binding.

Mr. PASSMAN. Applicable to this year's appropriation?

Secretary DILLON. Yes, sir.

Mr. FORD. Do you have another copy of that, Mr. Secretary?

Secretary DILLON. Certainly; this is the regular communication from the President you have before you and which you are considering now.

It is House Document No. 208 of the 87th Congress.

Mr. FORD. That document encompasses all of the mutual security fund budget request?

Secretary DILLON. That is right.

Mr. FORD. Of course, that is all predicated upon the authorization legislation being approved?

Secretary DILLON. That is correct.

Mr. FORD. That is the precise procedure by which this would happen for fiscal 1962 as well as subsequent fiscal years?

Secretary DILLON. Each subsequent fiscal year there would be the same request, and this would be under the Government Corporation Control Act. It would come before this committee and the committee would, each year, have to authorize the expenditure of the funds.

Until that authorization had taken place, as a result of the action by the Congress after hearing by this committee, the funds that had been made available for this particular year would not be available for use.

Mr. GARY. Will the gentleman yield?

Mr. FORD. Surely.

Mr. GARY. Why would the President request this amount if we already had authorized him to borrow it from the Treasury?

Secretary DILLON. Is that a question for me?

Mr. GARY. Yes.

Secretary DILLON. The reason is that this is what we understand, or what the administration understands, the Government Corporation Control Act to provide. It is the law.

Mr. RHODES. Would the gentleman yield?

Mr. PASSMAN. Yes, sir.

Mr. RHODES. Mr. Secretary, would it be possible to go back over your testimony on pages 13, 14, and 15 to make sure I understand?

Secretary DILLON. Absolutely; yes. I think that is the key thing.

This is not just—on page 13 and going through 15—this is not just limited to my own views, but these are the views that have been carefully prepared and are the administration's views on this subject.

Mr. RHODES. Mr. Secretary, it was my understanding that the administration desired the legislative committee to authorize annually, and that the executive department of the Government could go to the Treasury with borrowing authority for the purpose of making development loans?

Secretary DILLON. That is right.

Mr. RHODES. Is this still the desire of the executive department?

Secretary DILLON. That is right.

Mr. RHODES. On page 14, paragraph 2, it says:

The Congress would have the responsibility of reviewing the program and acting to authorize the use of the borrowing authority and all available receipts year by year.

Do I understand this to mean that the legislative committee would authorize borrowing authority each year?

Secretary DILLON. No; this would take place in the Appropriations Committee. This is the thing we are talking about.

The next sentence says:

In accordance with past practices from which there has been no deviation, this review would take place in the first instance in the Appropriations Committees of the respective Houses in the same manner as all other budget proposals.

Mr. RHODES. Then the words, "authorize the borrowing authority," have no clear meaning to me.

Do I understand that the review occurs after the funds have been spent and after the borrowing authority has been exercised?

Secretary DILLON. No.

Mr. RHODES. Would you please explain further?

Secretary DILLON. It is probably because of the technical use of the word "authorization" and the words "authorizing committee."

The authorizing committees of the Congress would authorize the program as a whole. That is one. Then, in addition, under this Government Corporation Control Act, the excerpt I just read from the communication of the President to the Congress transmitting the appropriation request, there would also be this language under development loans:

There are hereby authorized to be made such expenditures, pursuant to title I—

and so on, under the borrowing authority. In other words, you have the borrowing authority, but you could not make any expenditures under it until those expenditures had been authorized in the appropriations act.

The word "authorization" in this case covers the action of the Appropriations Committee as well.

AUTHORITY OF CONGRESS TO REDUCE FUNDS UNDER LONG-TERM  
COMMITMENT PROPOSAL

Mr. RHODES. What is the difference, in effect, of this type of arrangement and the appropriation of no-year funds?

Is not the effect identical?

Secretary DILLON. The only difference in this type of arrangement, as I can see it, is that the Congress would be saying that it was their intent, if everything was the same, and unless there was some good evidence to make them act to the contrary, that they envisaged a certain amount of funds being spent every year. Therefore, there would be an additional burden on the Congress, I think, to take action to cut this back, and they would have to be sure there was some very good reason to do this.

I want to be perfectly clear on this and that is the reason for the statement beginning at the bottom of page 14 under paragraph 3, where it says:

Of course, it is presumed that in accordance with legislative practice under the Government Corporation Control Act, modifications or limitations would only be imposed in special or unusual circumstances.

The fact is that the Appropriations Committees have always had that authority, under this act, but they have not utilized it to cut back, or to limit the amounts that one of these Corporations might spend, although they could do so.

They could do the same thing here, but there would be an extra burden of proof on them.

Mr. RHODES. The only sanction, however, would be their own conscience?

Secretary DILLON. That is right, the only sanction.

Mr. PASSMAN. Mr. Secretary, would the executive department wait each year for an examination by the Appropriations Committee, before entering into any commitments, or would the department enter into commitments prior to a review by the Appropriations Committee?

Secretary DILLON. The whole point of this is to have the ability to make long-range commitments, but these commitments could only be conditional. As shown at the bottom of page 5, it could enter into considerable commitments which would be specifically subject to the money becoming available at a later date. These would be legally valid only to the extent the money became available under the procedures described. The idea would be in each one of these cases they would write in a particular clause to this effect, and each one would also be reported to the Congress.

Mr. PASSMAN. If the borrowing authority has been granted, the executive branch would enter into commitments and obligations. It would not be expected that the Congress, in subsequent years, would pass legislation that would cancel those commitments. Is that not about the position we would be in?

Secretary DILLON. I think there would be a very strong presumption against canceling even these conditional commitments, but if one of

them should be very bad and you should find this was a complete waste of money, there would be no reason not to take action to limit either that specific one or the overall total.

Mr. PASSMAN. In effect, the Congress would not exercise the controls and prerogatives under this type of authorization as it does under the present one, by which you have to come in for annual appropriations?

Secretary DILLON. I think it would have the right, but in effect there would be a substantial extra burden of conscience, as Mr. Rhodes said, not to take this action unless there was a very specific reason to do so. So it would be more difficult.

Mr. PASSMAN. The record does not indicate that the Congress has ever made exception to the commitments undertaken through this type of legislation. Is that a statement of fact?

Secretary DILLON. That is a statement of fact.

Mr. PASSMAN. Evidently the Executive sees some advantage in getting the program away from effective congressional checks. Otherwise, you would not be asking for this type of legislation. We are all Americans. We can discuss this very frankly. Unless you have some advantage in taking the program away from close scrutiny and effective congressional controls, there would be no reason for this request?

Secretary DILLON. There is no desire to take it out of any close scrutiny. The only reason is to have the authority, which we do not now have in usable form, to make the multiyear conditional commitments.

Mr. PASSMAN. Mr. Secretary, do you know of any foreign aid project that was ever started that had to be abandoned because of lack of funds?

Secretary DILLON. I am not aware of that. Our problem has been that we have not been able to make long-range commitments because of the way the law exists.

#### EXISTING AUTHORITY TO MAKE LONG-TERM PROJECTS

Mr. PASSMAN. How about the long-range projects? There are projects in progress now which will not be completed until 1971 and 1972. Under the Development Loan Fund, the expenditures, the actual checks drawn, have amounted to only a very small percentage of the total amount of the DLF appropriation, which means, of course, that you do already have long-range planning, and you advance the money against the project for which you made the loan as it progresses. Is that correct?

Secretary DILLON. That is perfectly correct, but that is not long-range planning. That means merely that we tell a country that they can build a dam, and we finance it at the beginning. They start the dam in the year in which the funds are available, and we set aside the total amount necessary to pay for it, but we are not able to tell them that the year after that they will be able to start an irrigation project which has to do with that dam, and the year after that start another dam somewhere else, which is what we would be able to do under this.

## DLF FINANCING OF PROJECTS IN INDIA

Mr. PASSMAN. Is India's 5-year plan not now being financed from the Development Loan Fund? Have you not, in the past, been financing projects in India?

Secretary DILLON. Quite inadequately, because we were not able to make long-range commitments. We have told the Indians, because we were forced by time this year, that we would make available a certain amount of funds for the coming fiscal year, provided Congress would appropriate it.

Mr. FORD. You mean inadequately in dollars, or inadequately otherwise?

Secretary DILLON. Inadequately in dollars.

Mr. FORD. Could we have, in the record, how much in dollars we have made available? I think we ought to have that.

Secretary DILLON. Yes.

(The information requested follows:)

*U.S. dollar assistance to India—Obligations and other commitments*

	Fiscal years 1946-60	Fiscal year 1960	Fiscal year 1961
Mutual Security Economic Aid:			
International Cooperation Administration.....	420.3	8.6	8.0
Technical cooperation.....	78.0	8.6	8.0
Special assistance <sup>1</sup> .....	342.3		
Development Loan Fund (loan approvals).....	366.3	171.3	180.1
Public Law 480.....	1,234.1	550.2	386.2
Title I—Grant loans.....	1,103.9	540.2	367.5
Title II—Emergency relief.....	4.9		.3
Title III—Voluntary relief agencies.....	125.3	10.0	18.4
Export-Import Bank (long term).....	165.5	13.7	80.7
Other U.S. economic programs.....	<sup>2</sup> 230.7		

<sup>1</sup> Excludes malaria eradication program.

<sup>2</sup> Breakdown of this figure is as follows:

Emergency wheat loan.....	\$189.7
Lend-lease credit.....	29.2
Surplus property credits.....	11.2
Technical assistance.....	.6

## BUDGETARY EFFECT OF LONG-TERM COMMITMENTS

Mr. PASSMAN. Mr. Secretary, I am not trying to have my way about these things, but I am trying to understand what we are doing. Do you feel that the financing of either domestic or foreign programs by this type of arrangement is just as prudent so far as the cost is concerned? It would not involve the spending of any more money than under the system of annual appropriations?

Secretary DILLON. There is no difference as far as the budgetary effect goes, because we have to balance expenditures with income in either event. The only advantage of this sort of system, the only place where I think it should be used—and I think it should be used most sparingly—is in places where long-range planning and financing are necessary. Congress has generally used it for those purposes and not for others, although I do think sometimes people like to go too far. Even in this session of the Congress we have written letters

opposing the use of this authority because we thought it was not proper.

Mr. PASSMAN. How about the Indus water project. Would it come under this arrangement?

Secretary DILLON. That type of thing would. We were able in the Indus project to treat that as an exceptional special case and get special consideration of that in the authorizing legislation a year or so ago. That, as a special case, is in effect already treated as a long-term commitment.

#### ANNUAL APPROPRIATIONS FOR LONG-TERM DOMESTIC PROGRAMS

Mr. PASSMAN. Mr. Secretary, I cannot believe that the fundamentals by which we have been operating our system of government in America for 187 years is wrong.

Do you think we should have a more liberal plan in dealing with those foreign matters, many of which we know very little about, than we have for our own domestic program here in America, which we understand rather well?

Secretary DILLON. No, I do not think so. We have 20-some-odd domestic programs that are financed by this.

Mr. PASSMAN. Out of literally thousands of them.

Secretary DILLON. Out of thousands.

Mr. PASSMAN. Let us consider, if we may, the public works program in our own country. I recall that in 1927 in the lower Mississippi River Valley our losses from floodwaters exceeded \$1 billion, and 329 lives were lost. We finally succeeded in getting an authorization for flood control and related works, and in subsequent years we increased that authorization. Just the same, we must carry on the program through annual appropriations, many years receiving maybe 5 percent of the total cost involved, and in many instances with projects requiring 15, 18, or 20 years and more to be brought to a conclusion. Notwithstanding the fact that those testifying for the funds for this program have indicated that they could use substantially more money in bringing these projects to completion, the committees of the Congress, in their wisdom, have regularly limited the annual appropriation to a small percentage, in many instances, of the total authorized project.

Would that procedure indicate that these projects, which were started 18, 15, or 12 years ago, were poorly planned? Would it mean that we could not bring those projects to a conclusion as economically and effectively as we could had we undertaken them on the borrowing authority basis?

Secretary DILLON. No. It is simply that the Congress has indicated so far that it prefers to handle the foreign construction in a different way. Congress has specifically said that the Development Loan Fund, when it makes loans, should set aside not just what is needed under a 1-year program, but set aside each time the funds which are needed to carry the thing through to completion, even if it is 4, 5, 6, or more years.

Mr. PASSMAN. Mr. Secretary, if we plan wisely for our programs and projects here in America, would it not possibly be to our advantage to take the time to plan prudently for these projects abroad, rather than make hasty commitments? I do not see why we should have a double standard—one for foreign projects, about which we must ad-

mit we know very little, if anything, and extend to them a preference over projects in our own country.

Secretary DILLON. Certainly, in dealing with foreign countries, I am sure they would not understand our system whereby, as you say, we authorize a project and it stays for years without getting a dime.

#### INDICATIONS OF POOR PLANNING IN PREVIOUS YEARS

Mr. PASSMAN. In many instances, under the type of legislation which you have had, with the exception of maybe a restriction this year, as high as 20 percent of all projects, we shall say, in the technical aid program had been entered into with poor planning, hasty obligation of partial funds, only to discover that there was an error. These projects then were abandoned and the funds used to initiate new projects, so as to put them in the category of continuing projects before returning to the committee.

We have run into such conditions as that in hundreds of instances, even where we have some degree of control. I think that now some development loan contracts, obligations, or letters of credit are being withdrawn simply because of hasty consideration. If you would check your record, I think you would find that to be true.

It will be very difficult to explain to the American people that we are going to make this exception for foreign aid, especially when it has been so well established that in the past it has been very poorly handled, and there is no indication, other than conversation, that there will be any change for the better this year. You will continue with the same types of projects, in the same countries, and using the same personnel, with few exceptions, and in all probability it will mean more money.

#### APPROPRIATIONS, OBLIGATIONS AND EXPENDITURE OF DEVELOPMENT LOAN FUNDS

If this program can operate on merit, and stand on its own feet, why do you ask for the exception, especially since each year you have been given more money than you could use, even after reductions had been made by the Congress?

Secretary DILLON. That has not been the case for the development loan operation. We have consistently had inadequate funds, except for the first year.

Mr. PASSMAN. You would probably have inadequate funds in all of the items if it were left up to the executive department as to how much money could be spent throughout the world. I do not think there is ever such a thing as providing as much as they would like to have.

Secretary DILLON. The Congress itself agreed that the funds originally appropriated for the last 4 years for the Development Loan Fund were inadequate. They agreed by appropriating supplemental funds.

Mr. PASSMAN. Even with the waste and mishandling and ineffectiveness, the program has wound up with funds on hand.

Secretary DILLON. We had no uncommitted funds in the Development Loan Fund, Mr. Chairman.

Mr. PASSMAN. What is the total amount of money appropriated to the Development Loan Fund since its inception? Have you those figures there?

Secretary DILLON. I think I have. I think it is \$2 billion. I have the figures here somewhere.

It is \$2 billion.

#### ACTUAL EXPENDITURES AGAINST DLF APPROPRIATIONS

Mr. PASSMAN. What are the expenditures against that amount; the actual checks drawn?

Secretary DILLON. I do not have the figure on checks drawn, but it is very small.

Mr. PASSMAN. Very small, percentagewise. But, we do not want to guess here. It is too serious a business.

Secretary DILLON. I have an estimate as of June 30. The estimate is that \$511 million has been spent.

Mr. PASSMAN. Over a period of 4 years.

Secretary DILLON. That is correct.

Mr. PASSMAN. Out of \$2 billion-plus appropriated, in the past 4 years you have actually spent about 25 percent.

Secretary DILLON. That is correct.

#### OBLIGATIONS FOR LONG-RANGE PROJECTS

Mr. PASSMAN. The other \$1½ billion has been obligated?

Secretary DILLON. That is right.

Mr. PASSMAN. There must be long-range projects involved there. Would that be a statement of fact?

Secretary DILLON. It is a statement of fact. I think we have talked about that in past years. This generally follows the experience of the World Bank and the Export-Import Bank. It takes about this period of time, 4 or 5 or 6 years, to spend money that has been appropriated.

Mr. PASSMAN. You do not think we are going to destroy this program and what little respect, if any, some of these foreign nations have for us by making this thing too easy?

Secretary DILLON. No, I do not, Mr. Chairman.

Mr. PASSMAN. You do not actually believe that possibly if we let those people know that this money is coming from the overburdened taxpayer, and it is hard to get, maybe there would be a better condition? From the beginning of time we have always lived up to our commitments.

Secretary DILLON. I think they know it is coming from the overburdened taxpayer in any event. The way it is financed has nothing to do with that.

#### QUESTION OF WHERE REGULAR APPROPRIATION PROCEDURE HAS FAILED

Mr. PASSMAN. Are you going to point out, anywhere in the record, where we have fouled up, have had poor planning and unsound projects in the past, simply because you could not commit for 5 years? You have had long-range planning all along.

Secretary DILLON. It is very difficult, if not impossible, to work out real long-range plans which require action by other countries, unless you can make long-range commitments.

Mr. PASSMAN. What countries are now objecting to the system we have used in the past 15 years in disbursing some \$86 billion, or I should say, more accurately a total post-World War II cost for foreign aid of some \$106 billion? On what particular projects do you find we are in trouble?

Secretary DILLON. There have been a number of places where they have hoped that we could give them long-range support to development plans, and we have not been able to do that.

Mr. PASSMAN. Have we lost the friendship of any countries as a result of this? Have they turned from us simply because we could not commit ourselves?

Secretary DILLON. No; but the long-range programs have not gone through the way we would like to have seen them go through, and I think their development has been slowed up because of this.

Mr. PASSMAN. Specifically, could you tell us what countries, where you have long-range plans, have objected because we could not commit ourselves on the long-range plans? I think it would look better for the record if we pinpointed now what countries, what projects, and on what dates we got fouled up with these countries because we could not enter into long-range commitments.

Secretary DILLON. I would like to say in that connection two things. First, Taiwan is one country where they had a very good long-range program which involved higher taxes and a whole lot of rather difficult decisions which they felt they wanted to go ahead and do, but then when they found that we could not commit ourselves alongside them, they did not feel they could go ahead.

A second one is in—

Mr. PASSMAN. Why did they not go ahead, Mr. Secretary? I am trying to understand it. Let us pinpoint the reasons why they did not go ahead with it. All they had to do was to call the legislature into session and pass the laws. Could they not have gone through with their reforms and said, "We are willing to go along with this"?

Secretary DILLON. They were not able to assure their people that they would get the support that was necessary to make some of these reforms possible.

QUESTION OF NECESSITY FOR HAVING FUNDS AVAILABLE BEFORE FOREIGN LEGISLATURES HAVE ACTED

Mr. PASSMAN. Have we reached the point that we have to go out and tell them that we have put up our money, and have it ready to draw a check, before we even ask them, the recipients, to pass legislation to provide that they will put up part of it?

Secretary DILLON. No. They have been putting up a part of it right along. I am talking about much more fundamental legislation.

Mr. PASSMAN. What does it involve?

Secretary DILLON. Changing their taxes, changing their whole economic system. Things of that nature.

Mr. PASSMAN. Could they not pass legislation providing for those changes, and get it on the statute books?

Secretary DILLON. They could, but they were reluctant to do it if they did not know they were going to get funds readily available.

Mr. PASSMAN. Could they not repeal the legislation very quickly if the funds should not be available?

Secretary DILLON. I do not think foreign countries like to pass legislation and then have to repeal it.

Mr. FORD. Will the chairman yield?

BOGOTÁ CONFERENCE

Mr. PASSMAN. If the gentleman does not object, I should like to continue at this point.

I remember very well, sir, with reference to the Bogotá Conference that we were assured there would not be any requests for money until such time as those countries had passed legislation providing for the land reforms and tax reforms needed, until after they had met the criteria that were established. But the rush act was put on, before those things had been done, so we came in here and, based upon the fact that we had made the commitment, appropriated the entire amount. This does not alter the fact, however, that specific promise was made that the countries would bring about certain reforms relative to lands and taxes, and so forth, before the money would be made available by us.

I wonder if something of similar nature is not what we are up against here, that we are going to proceed to enter into these agreements prior to the land and tax reforms? Would it be expected that this is the pattern we might follow, or is that the exception?

Secretary DILLON. No, I think the idea is that funds will not be made available under those Bogotá programs unless there is progress in each country. What that exact progress will be may vary from case to case.

Mr. PASSMAN. We have already appropriated the money. The agreement has been entered into. The race is being run.

Secretary DILLON. You have appropriated the money. It has not been spent yet.

Mr. PRESSMAN. Contracts have been signed.

Secretary DILLON. No; none of them has been signed.

Mr. PASSMAN. You are already obligated for three projects.

Secretary DILLON. As far as I know, none of it has been obligated.

Mr. PASSMAN. Let me repeat the statement that you have obligated three projects.

Secretary DILLON. I was thinking about the Inter-American Bank. I do not know what the ICA may have done.

Mr. PASSMAN. I yield to the gentleman.

Secretary DILLON. I would like to answer one thing which you did not allow me to answer.

Mr. PASSMAN. Please do, Mr. Secretary.

Secretary DILLON. That is in connection with the specific feeling about this long-term planning. There has been prepared, in preparation for the meeting at Montevideo, a series of reports by the Inter-American Economics and Social Council, which has been preparing basic documents for that. These have been prepared by leading Latin

American economists. One of the conclusions of the basic report is that—

Long-term plans for social and economic development must be supplemented by long-term plans for financing from external as well as from internal resources.

There is a case where all of Latin America feels that action of this sort is necessary. There is a specific example.

#### REFORM LEGISLATION PRIOR TO COMMITMENT OF U.S. FUNDS

Mr. PASSMAN. Should we not have a feeling in the matter, since we are putting up the money? Why should we not be more specific?

It appears to me, Mr. Secretary, as if we are trying to cure just about all of our ills with money. It also appears to me that this would be a better program, and the various countries would have more respect for us, if we indicated this money is hard to come by, and let it be known action on their part is expected—for example, let us see you get your project started, pass your legislation, put your land reforms and tax reforms into effect. If those projects or reforms are good at all, they are basically as good without the American dollars; are they not?

Secretary DILLON. I am not sure that they all can be carried through successfully—I do not think they could—without outside support.

Mr. PASSMAN. But, if it is desirable to have land and tax reforms in these countries, it is desirable at any time, either with or without our money; is it not?

Secretary DILLON. Not necessarily, if they cannot afford what goes with it, which are the roads, the schools, the water systems, and things of that nature.

Mr. PASSMAN. It would not be advantageous to have the legislation on the books prior to the commitment?

Secretary DILLON. I do not think there is any use having legislation on books that you cannot afford.

Mr. PASSMAN. Let us put that shoe on our foot. Why do you want to have legislation on our books when we do not know whether they are going through with it or not? Could we not discuss that point briefly? Would it not work both ways?

Secretary DILLON. The legislation is all shot through with the basic thought that we will make our aid available to those who help themselves.

To make this effective, we have to allow someone to be the judge of that. The Executive, in operating under the criteria laid down by the Congress, has to be that judge, if this is to be an effective program.

Mr. PASSMAN. The foreign nations are the recipients of this program, are they not?

Secretary DILLON. That is right.

Mr. PASSMAN. Even the recipients should be prepared to accept Santa Claus, if I may be pardoned for so expressing it. Why should we have to pass legislation, put up the money and say, "We are all ready to go, and will give you this money, provided you will pass laws"? Would it not be just a little bit better, as they are the recipients, to say, "You get your house in order, and after you get your

house in order we will pass legislation"? Why do we have to look and be stupid, as many express it, passing legislation in advance of the legislation for participation on the part of the nations which are the recipients?

Secretary DILLON. I do not think you do look stupid.

Mr. PASSMAN. A lot of people think so.

I yield.

QUESTION OF PROJECTS IN TAIWAN SUFFERING FROM LACK OF LONG-TERM COMMITMENTS

Mr. FORD. Mr. Secretary, I am very much interested in the illustration you mentioned about an alleged failure to consummate a project or program with Taiwan because of the possibility that Federal funds would not be available. Is that not what you said?

Secretary DILLON. What I said was that the Taiwanese had a long-term program of reform which they have not carried out as effectively as we would have liked. I think one very clear reason for that is that we were not able to match the long-term aspect of that with long-term commitments.

Mr. FORD. I would like to make two observations in that regard.

It has been my personal impression that Taiwan, among a few limited others, has always been substantially supported by an overwhelming majority of the Members of the House and the Senate. I do not think the Congress, or at least the majority of Congress, would have been reluctant to support such a program if it were singled out and earmarked as a country program which needed financing.

Secondly, it is my general impression that if there has been any reluctance to support Taiwan, it has come from certain sources in the executive branch of the Government.

Mr. GARY. Will the gentleman yield?

Mr. FORD. It seems to me that, based on our past record of substantial amounts of money, aid, and assistance, military and economic, for Taiwan, they could have assumed our good faith in the future.

I yield to the gentleman from Virginia.

Mr. GARY. Has not a certain amount of reluctance come as a result of conditions in Taiwan itself?

Mr. FORD. I am not the best witness on that, but certainly we can be proud of and not apologize for our record of support for the Taiwanese Government, both economic and military.

Mr. PASSMAN. If the gentleman will yield at this point, I think we should say for the record that Taiwan has been one place where we have put so much aid that they have had to cancel many projects. They found, after they had started planning them, they were not feasible.

I think one of them was a dam or a water project which they abandoned. The record will further show, I think, that somewhat the same condition prevailed with reference to an expensive sawmill in Taiwan. I think the record will indicate that something like 212 projects, maybe some of them minor in nature, were canceled in Taiwan. Are you familiar with the record concerning those projects, Mr. Secretary?

Secretary DILLON. No, Mr. Chairman.

Mr. PASSMAN. You have not heard anything about them?

Secretary DILLON. I heard about a sawmill, but that was before my time in the State Department.

Mr. PASSMAN. Would you not like to go into some of those matters, and know well what we are up against before you use as an example Taiwan, one of the largest recipients under this aid program, where we have canceled maybe more projects, if we take it on a population basis, than any other place on the face of the earth; before you use that one country as an example to get the foreign aid program out from under control of the Appropriations Committees and the Congress?

QUESTION OF PROJECTS IN LATIN AMERICA SUFFERING FROM LACK OF LONG-TERM COMMITMENTS

Could you name any other project at this time?

Secretary DILLON. I named the whole of Latin America.

Mr. PASSMAN. That is a blanket statement, sir. Could you pin down projects in Latin America?

Secretary DILLON. Projects of long-term planning in every country of Latin America.

Mr. PASSMAN. Could you pin down one project for which they say, "We want to get going on this project, but we will not pass this legislation until you have passed yours"? We rushed into a program and in a matter of weeks made an appropriation of \$500 million. What countries are actually making land and tax reforms, and have actually passed legislation dealing specifically with the Bogotá Conference agreement, since the Latin American appropriation was made?

Secretary DILLON. I will have to supply that for the record.

Mr. PASSMAN. Please do so, for all of Latin America.

(The information requested follows:)

RECENT SELF-HELP MEASURES IN LATIN AMERICA

Passage of Public Law 86-735 by the U.S. Congress and the signing of the Act of Bogotá by representatives of the member nations of the Organization of American States, both in September of last year, reflected the growing feeling that social progress in Latin America is the joint responsibility of all classes and all nations in the region. Not only did these actions capture the spirit of change which was already beginning to be reflected in various kinds of social reform throughout Latin America but they provided incentive and stimulus to further legislation and other measures for social development in such areas as rural living and land use, housing, public health, education, social welfare, et cetera. In order to finance such needed reforms, governments found themselves under economic pressure to improve tax structure and administration, introduce fiscal and monetary reforms, bring about greater economic stability, and generally to take such steps as would maximize the use of their own resources. Public Law 86-735 established that economic assistance would be given to those American Republics "which participate in a joint development program based upon self-help and mutual efforts." The Act of Bogotá confirmed this principle.

Since the signing of the Act of Bogotá, nearly all of the Latin American nations have shown continuing interest in carrying out the objectives of the act, and most of them have given concrete evidence of their intention in the form of specific self-help measures. A partial listing of actions follows:

*Brazil.*—The Agrarian Reform Law in the State of Sao Paulo, designed to assist small farmers in acquiring land and implements, was passed on December 30, 1960. It provides funds (\$36 million) for the expansion of agriculture and livestock production, and to finance the sale of production goods to small farmers. The law provides for the use of a graduated land tax ranging from 2 percent on the first 100 hectares to 6 percent on that portion which exceeds 5,000 hectares.

The tax rate may be doubled if up to 70 percent of the property is not productive or if over one-half is leased. On the other hand, the tax may be reduced to a maximum of 2 percent if 80 percent or more of the property is properly exploited.

*Chile.*—A 10-year development plan, initiated in January 1961, was announced in November 1960. This 10-year plan calls for investment equivalent to \$10 million between 1961 and 1971. The primary goal is to raise the annual level of investment from approximately 9 percent of GNP (1957-59) to 18 percent by 1971. This program will be financed by increasing tax services from a level of 13.2 percent of GNP (1959) to a level of 14.5 percent of GNP, and by holding the annual rate of increase of public sector consumption equal to the growth in population.

*Colombia.*—The Colombian Government is actively supporting and attempting to secure passage of agrarian reform legislation. The Senate on June 8, 1961, approved the Government's agrarian reform bill, which then passed to a House committee. The program provides for a plan of colonization and parcelization to be administered by an agrarian reform institute established by the legislation. In the meantime, work is being carried on in the colonization areas by the agricultural credit bank and other agencies, which are engaged in soil sampling and surveys, engineering studies for penetration roads, and some construction work on feeder and secondary roads and bridges.

On December 16, 1960, the Colombian Government released a 4-year public investment plan, developed by the National Planning Department and approved by the National Planning Council. It is the first of two documents to be issued for the purpose of giving detailed expression to the platform of economic development and social welfare enunciated by President Lleras. The second document will present a general program of economic and social development. The 4-year investment plan contemplates the investment of \$1.12 billion by certain Government entities from 1961 through 1964.

*Costa Rica.*—A law, passed in June 1961, granted the National Housing Agency (INVU) authority for slum clearance. This act defines adequate housing standards and prohibits the rental of substandard houses. INVU will spend at least 75 percent of its budget on slum clearance over the next 5 years. The Board of Directors of INVU has approved a new policy for a revised savings and loan program for low-cost housing. The new policy restricts construction of dwellings to those not to exceed \$5,600 in cost, including lot.

The National Assembly established a National Authority of Water and Sewers on April 10, 1961. This Authority has the responsibility for building and operating urban water supplies. The Government of Costa Rica has spent \$3 million from its own resources to buy piping and meters and to extend San Jose's potable waterlines. This is only one component in a program of metropolitan planning and has high priority.

A metropolitan water supply project is also under consideration which is related to Costa Rica's program in public health. This project is designed to expand and improve the water supply in San Jose.

*Ecuador.*—A decree establishing the National Housing Bank was announced in June 1961. This decree also provides for the establishment of savings and loan associations and other institutions necessary to sponsor low-cost housing programs in Ecuador.

On April 14, 1961, the Government increased its import duties 2½ percent following the recommendation of its National Planning Board. It is estimated that this measure will provide the equivalent of \$2 million to \$4 million annually in additional revenue.

*El Salvador.*—The Instituto de Colonization Rural (ICR) is implementing an agrarian reform plan<sup>1</sup> involving the purchase of large estates for resale as family farms, land and supervised agricultural credit, rural housing, and feeder roads. The ICR is considering the purchase of additional land for resettlement purposes. The ICR also has proposed that studies be made of the farm tenancy laws in El Salvador and improvements be made in their operation.

*Guatemala.*—The Congress, on June 6, 1961, passed the guaranty mortgage-fund bill which is similar to the FHA law in the United States. The legislation establishes the basis for long-term credit to finance home construction for low-income families and serves as an important investment opportunity for private capital.

The Guatemalan Government has also continued its active program<sup>2</sup> of rural development and resettlement, including supervised agricultural credit. This

<sup>1</sup> Launched in early 1961.

<sup>2</sup> The Agrarian Statute of Feb. 25, 1961.

activity has effectively developed access roads, administrative facilities, rural schools, and health centers in 21 communities, and established approximately 4,000 families on their own land. By the end of 1960, titles had already been granted by the Government to 3,761 farmers. In another phase of the Ministry's program, about 4,200 homesteaders received title directly from the Government for small land parcels on which to grow food for home consumption; and a large number of farmers have been granted title where they have farmed the lands in previous years.

*Honduras.*—The executive branch of the Government has prepared a revised tax program for presentation to the Congress in its next session beginning in the fall of 1961. Meanwhile emphasis is being placed on improving the administrative and collection procedures of the present tax laws.

*Nicaragua.*—In January 1961, the Government established the Instituto de Comercio Exterior e Interior (INCEI). The Institute's purpose is to help small and medium-sized farmers to market their products at a fair international market price so that the farmers will no longer be at the mercy of fluctuating prices. According to its charter, losses or deficits on its operations will be covered by the state in the next fiscal year, presumably through the Government budget.

On January 1, 1961, the Nicaraguan Government instituted seven new taxes which are expected to raise Government revenues by \$1 million. These measures cover consumer taxes on cigarettes, liquor, beer, automobile vehicle registrations, and lottery. The Government has further intensified its collection of income taxes. A sliding scale of land taxes has been proposed by the executive branch and is expected to be enacted this summer (1961). Nicaragua has not previously had any form of land tax.

A central bank was established on January 1, 1961. Its objectives are to "create, promote, and maintain the monetary, exchange, and credit conditions most favorable for the development of the national economy."

*Panama.*—Income and other tax legislation was passed in December 1960. It is estimated that these measures will increase Government revenues by \$2 million annually (amounting to 3.3 percent of the new budget). Administrative procedures have also been revised to improve tax collection.

The President has ordered various agencies to form a working committee on rural development. This group will be directed by the Planning Bureau and is charged with selecting locations for rural settlement projects to be started in 1961. The Government has arranged for the purchase of 200,000 hectares of land for this purpose and some of it is now being subdivided for distribution to present settlers. A draft of new legislation dealing with the questions of agrarian reform has been prepared and will be reviewed for submission to the next session of the National Assembly in October 1961. In order to permit interim action, a law was passed in the last session of the Congress delegating authority to the provincial Governors in matters pertaining to distribution of land under the "Patrimonio Familiar" system.

A Banco de Credito Agrícola y Pecuario was established by law during the last session of Congress (October 1960) to help small farmers and may play a major role in rural development schemes when organized. A Banco de Credito Popular was also established and is being organized to work principally in the major urban areas.

*Peru.*—A slum clearance decree was issued in February, opening the way for renovation of urban slum areas by providing facilities for sanitation and legal authority to grant titles. The Peruvian Government has started construction of "satellite cities" in the outskirts of Lima to help solve the serious urban housing problem. San Juan, the first city, will provide lots at cost, with basic improvements (streets, lights, water, sewage) for 10,000 families. Initial applications totaled 22,000. A \$2-million bond issue was floated to finance this project.

An institute of agrarian reform was created on June 5, 1960. A comprehensive land reform law was submitted to the Peruvian Congress in October 1960. An abridged version of this bill was resubmitted in March 1961. It is expected to be taken up again in debate in one of the four extraordinary sessions this summer. The bill plans on setting up a working basis for colonization—for the time being this would be on Government-owned land.

In the meantime, on April 21, 1961, an agrarian reform program was authorized by supreme decree in order to initiate activity in the field during the current year.

*Uruguay.*—A new income tax law was signed by the Chamber of Deputies on July 1, 1961. This law, applied to incomes from both industrial and agricultural

activities, penalizes nonproductive exploitation of land. It provides for tax incentives to reinvest profits in improved land use; it also includes income taxes on corporation profits.

*Venezuela.*—The Government, in order to finance its large-scale agrarian reform plan and to meet normal Government expenditures, has increased gasoline, income, and inheritance taxes with a resultant annual increase of Bs100 million (about \$300,000) in revenue. Savings of about Bs50 million are being produced by a recent 5-percent cut in Government salaries.

Although the Venezuelan agrarian reform law was passed before the Act of Bogotá, most of the accomplishment under this program has been achieved since that date. Approximately 24,000 families were settled on approximately 1,000,000 hectares in 1960 in an integrated land reform program which embraces agricultural credit, extension, construction of schools, and other related measures needed to establish farmers on family-sized units.

In addition to the individual country efforts at self-help, two multilateral measures are worthy of special mention. In Central America, a common market agreement has been ratified by Nicaragua, Guatemala, El Salvador, and Honduras. The primary objective of this arrangement, which includes tariff reductions and the formation of a central bank for economic integration, is to encourage complementary trade and provide a larger market as a basis for industrial development of the member countries.

A similar effort is found in the Latin American Free Trade Association signed on February 18, 1960, to which Mexico and most of the economically important South American nations are signatories.

#### QUESTION OF PROJECTS IN MIDDLE EAST SUFFERING FROM LACK OF LONG-TERM COMMITMENTS

Mr. PASSMAN. Let us look at, say, the Middle East. Do you know of any particular projects in that region which would justify this exception?

Secretary DILLON. I think we could do a lot better in both Turkey and Iran if we could do long-term planning, which we have not been able to do.

Mr. PASSMAN. If it is good for them, would it be recommended that the public works projects in this country be put on the same basis? If what you propose is sound and wise, then you can release 50 Members of the House Appropriations Committee to do other constructive work around here, and not be beating our brains out trying to help you balance the budget on domestic projects, while it is being unbalanced on foreign aid.

Secretary DILLON. But it is nobody's idea that this would relieve the Appropriations Committee of work.

Mr. PASSMAN. I suppose there would be work to do around here, trying to explain our action. That would be just about what it would be limited to.

I yield to the gentleman from Alabama.

#### QUESTION OF PROJECTS IN TAIWAN SUFFERING FROM LACK OF LONG-TERM COMMITMENTS

Mr. ANDREWS. I want to ask the Secretary to pinpoint one project in Taiwan which has been delayed or eliminated because of lack of funds from the United States.

Secretary DILLON. That is not the point at all. What I meant was that the Taiwanese Government had a general program of economic reform, including tax reform and monetary reform. They felt to carry that out they needed assurance of given funds over a period of time, and we were not able to give them that. They said they were

then going to go ahead with the plan anyway, because it was a good plan, but they were not able to perform on that, because they did not have the assurance that they would get roughly given amounts of foreign assistance every year. It was not any particular program or any particular dam or thing of that nature.

#### REPAYMENT OF LOANS IN DOLLARS

Mr. PASSMAN. Mr. Secretary, how are you going to erase from the record testimony from the low, the high, and the inbetween, that the Development Loan Fund is for underdeveloped countries and, therefore, should be on a local currency repayment basis; that if we exacted repayment in dollars we would defeat its purpose? If you switch it now to a dollar basis, how are you going to explain now that these strong claims of prior years have been so completely wrong?

Secretary DILLON. I do not think it was all wrong, but I think the way our Public Law 480 is developing—

Mr. PASSMAN. I am talking about the Development Loan Fund.

Secretary DILLON. So am I, but I cannot talk about it unless you permit me to talk about Public Law 480.

Both of these two programs produce substantial amounts of local currency. Now that it has become obvious that our surplus commodity disposal programs are going to continue for a long period of time and are not temporary, it is clear that we shall have very substantial amounts of local currency from these programs. Therefore, we feel it is not necessary or advisable to continue the local currency program for the development lending procedures.

There was one other reason for a change in this connection, Mr. Chairman, and this was that when we first considered the Development Loan Fund, consideration was given at that time to dollar repayable loans. They would have very little interest or no interest, which is what we are proposing now. At that time, representatives of some other lending organizations, such as the World Bank, felt that having dollar repayable loans with no interest would somehow conflict with their own type of loans charging  $5\frac{1}{2}$ ,  $5\frac{3}{4}$ , or 6 percent.

Since then they have come to reverse their opinion on this, and they have pioneered the way in these dollar repayable loans with no interest, which is what is now being done by the International Development Association. So, having the support of the World Bank and of the general international financial community for this type of lending, plus the continuation of the Public Law 480, leads us to believe we could switch the development lending to dollar repayment, and certainly dollar repayment would always have given us and does give us something of greater value in the form of repayment to the United States than the local currency repayment which we originally had.

Mr. PASSMAN. Mr. Secretary, only last year the plea was just about as strong. I quote Mr. Brand's statement from last year's hearings:

Mr. BRAND. Yes, I am very happy you mentioned the chief difference, because there are other differences. One I might mention is that the World Bank and the Export-Import Bank, even though a loan might be paid in dollars, might decline to participate in a loan that we would, because the risk might be a little greater, even though it would be repaid in dollars.

Secondly, there are times when we make loans for local currency purposes. Generally speaking, the World Bank and the Export-Import Bank do not do so. The final reason is that we want to increase rather than impair the dollar serv-

icing ability of the country for hard-currency loans. So we do not want to take the place of the World Bank and the Export-Import Bank, adding to the servicing requirements of the country in hard currency in many instances.

Have economic conditions in those countries now reached the point that they can afford to permit these loans to be repaid in dollars?

Secretary DILLON. We feel that these loans with the terms as set forth, which are no interest and no principal repayable for the first 10 years, would not put any burden except a small service charge on their economies for the first 10 years. Thereafter, they would repay in the next 10 years 1 percent a year. Thereafter, they would repay for the next 30 years at 3 percent a year. We think that sort of burden is one they can meet, particularly in the future when they will be in better shape than they are now.

#### LOANS AT NO INTEREST

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

Secretary DILLON. No. That is an interesting problem. The World Bank was the first to face it since they had their own operations, which are loans, and then they had the International Development Association which they were also operating, which was making these advances. They discussed this at considerable length in their board, and they asked the representatives of all the countries on their board for their opinions on this. After long discussion, they decided to call the advances by the International Development Association development credits rather than loans, to indicate that there was a difference between an interest-bearing obligation and one that was repayable in dollars but did not bear interest. They call them development credits, and I think that is a good name for them.

Mr. PASSMAN. If we should explain in a forthright manner to the American people—most of whom have their homes, automobiles, radios, and farms and businesses mortgaged—that we are making loans to these people at no interest, with no principal to be paid the first 10 years, and then were courageous enough to collect the principal at 1 percent a year for the next 10 years, then at 3 percent a year on the principal for the next 30 years—and no interest charge on any of it—do you think there would be much support coming in for this proposal?

Secretary DILLON. I think it is better to receive dollars than to receive local currency.

Mr. PASSMAN. I am talking about the fact that there is no interest. You do not pay anything back for the first 10 years. Then we hope to collect at the rate of 1 percent a year on the principal, then at 3 percent a year on the principal for 30 years, and there is no charge at all for interest. You would be making loans repayable in 50 years without interest.

Secretary DILLON. That is correct; a service charge of three-fourths of 1 percent.

## DEVELOPMENT CREDITS FOR AMERICAN PROJECTS

Mr. PASSMAN. Have we given any thought to applying this type of program to any type of projects we may have in America, or is this just for foreigners?

Secretary DILLON. We make grants available for projects here, and this is less attractive than grants.

Mr. PASSMAN. We make grants also to foreign nations. We have plenty of grants. But, you call this thing a loan.

Secretary DILLON. No. We call it a development credit.

Mr. PASSMAN. Development what?

Secretary DILLON. Development credit.

Mr. PASSMAN. Is there any proposal such as this which might possibly apply to any type of American project, such as to municipalities, or for factories, or Passmans who want to go into business?

Secretary DILLON. I am not aware of any at the moment.

Mr. PASSMAN. It is just for foreigners at this time?

Secretary DILLON. Yes.

Mr. PASSMAN. Are we actually letting the cat out of the barn, that this thing is such a radical departure from sane business operations? Is the idea really that we have had, even under congressional scrutiny and some degree of control, so many wasteful projects, so much bad planning, that there is anxiety over getting this stuff behind an obligation? Does this actually have anything to do with getting it out from under detailed examination by the appropriate committees before you actually get the money?

Secretary DILLON. No.

## ORIGIN OF THE PRINCIPLE OF DEVELOPMENT CREDIT

I would like to point out in this form of development credit that this was originally developed and worked out by the President of the World Bank, Mr. Eugene Black, in consort with representatives of all the other lending nations who are members of the International Development Association. So this is not a solely U.S. idea. This is international.

Mr. PASSMAN. When did Mr. Black work that out, Mr. Secretary?

Secretary DILLON. It went into effect, I would say, last spring for the first time.

Mr. PASSMAN. You are a banker, and a good one. You would not want to take your money and tie it up in a deal like this, would you?

Secretary DILLON. I think it would be better than giving it away.

Mr. PASSMAN. I believe Mr. Black changed his opinion, did he not?

Secretary DILLON. Yes.

Mr. PASSMAN. It could be subject to some further deliberations, if he has changed his position. He has had two positions on this question already, has he not?

Secretary DILLON. That is correct.

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

## EFFECT OF BACK-DOOR FINANCING ON TAIWANESE PROJECTS

Mr. FORD. Mr. Secretary, I am still interested in this Taiwanese proposal. It is alleged they were unwilling to make certain reforms because they could not rely on long-term commitments from us. Are you in effect saying that if at that time you had this back-door financing availability, that this program in Taiwan would have materialized?

Secretary DILLON. I have the feeling if we had had the ability at that time to make specific long-term commitments that the program with Taiwan would have gone ahead far better than it did go ahead.

Certain actions were taken and the program has not been abandoned.

Mr. GARY. Will the gentleman yield?

Mr. FORD. Yes.

Mr. GARY. Mr. Secretary, you stated that the Indus water case was a special case. You did come to the Congress and get the authority?

Secretary DILLON. That is right.

Mr. GARY. Why didn't you come in and get the authority in the Taiwan case?

Secretary DILLON. I cannot answer that. Probably because they felt by doing this for one country you would have to do it for all countries.

## SPECIAL PROGRAM APPROVED FOR SOUTH AMERICA

Mr. GARY. You also did it for the Latin American countries, did you not? You presented a special program this last fall which the Congress approved?

Secretary DILLON. That is right.

## QUESTION OF CONGRESSIONAL APPROVAL OF INDIVIDUAL LONG-TERM PROJECTS RATHER THAN OVERALL AUTHORITY

Mr. GARY. You have named two projects in which this situation existed; one was Taiwan, the other was Latin America. Now we did take care of the Latin Americans by special legislation. The Congress had an opportunity to review it. They authorized the program. The same thing was done in the Indus water case. Why could it not be done with Taiwan and any other special cases you have instead of asking general authority to take the whole program from under the operation of the Congress?

Secretary DILLON. There is no idea, as you know, to take this from under the operation of Congress.

Mr. GARY. I think it will take it from under the operation of the Congress. That is my opinion. I want to say this: It is placing me in a very embarrassing position because I have never yet voted against the foreign aid bill, but I will never vote for a foreign aid bill containing any such provision as this. I think it is unconstitutional. I think it is bad fiscal practice and I think it is indefensible.

## SHIFT OF BURDEN OF PROOF TO CONGRESS TO JUSTIFY PROJECTS

Mr. PASSMAN. If the gentleman will yield, this should be in the record at this point because we did not pin it down and our distinguished Secretary I think made the case that actually if you get the type of legislation that you want, we have to prove to you that you do have bad projects and do not need the money whereas presently you have to prove to the Congress that it is a good project and you need the money; is that right?

Secretary DILLON. You do not have to prove to anyone except your own conscience. The burden of proof will be on the Congress.

Mr. PASSMAN. The burden of proof will be on the Congress, to make out a case that the projects are unsound and that you do not need the money, rather than on the part of the executive that they are good and that you do need the money; is that correct?

Secretary DILLON. I think there will be a shift in the burden of proof. That is right.

Mr. PASSMAN. Could you find words that would fit my understanding? Presently we scrutinize the requests. You have to say and try to prove that you need the money, that the projects are valid and sound. Based upon that testimony, the Appropriations Committees make recommendations and reports and the Congress acts on bills, and you get the money. Under the proposed plan, if you get the authorization to borrow the money, then the burden of responsibility shifts. Then, who have to do the convincing that the projects are not justified and that you do not need the money?

Secretary DILLON. You do not have to convince us. You have to convince yourselves strongly enough so you feel it appropriate to reverse earlier action of the Congress.

Mr. PASSMAN. I think the Secretary knows what I am talking about, and I believe he is in accord with my views that the responsibility for proof shifts to the Congress and away from the executive branch.

## LONG-RANGE PLANNING IN TAIWAN

Mr. FORD. Did this Taiwanese problem arise about the time the DLF program developed? When was this difficulty? When did it come into being?

Secretary DILLON. As I recall, the program was first suggested—but that would have to be checked with the Department of State—about 2 years ago this coming fall. That is, in the fall of 1959. It was about that time.

Mr. FORD. According to chart material submitted at the time of the request for the Inter-American programs for 1961, it shows that from the Development Loan Fund Nationalist China or Taiwan had received about \$75 million from the Development Loan Fund. Was more in dollars needed to get this reform legislation in order to get their cooperation?

Secretary DILLON. No. I think all they wanted is the same thing that so many others want, the same thing as the South Americans expressed, some definite assurance such as we did provide in the Indus Basin matter, that funds would be made available over a period of time, running 4 or 5 years into the future.

That is what we have not been able to do in the past. It is quite true that, based on past records, many of these countries should be able to rely on us. I do not differ with that at all. But as a practical matter apparently they feel that there is a danger that this program will be modified or cut off and therefore they do not wish or are reluctant to take the very difficult steps which are sometimes involved in changing tax systems, land reform, et cetera, unless they can be certain at that time or as certain as they possibly can be that a given amount of funds will be made available each year.

Mr. FORD. Are you saying in this Taiwan incident that if you had had this proposed back-door authority that these reforms would have been made?

Secretary DILLON. I am saying that in my opinion if we had had authority to make long-term commitments these reforms would have been implemented more rapidly and more effectively.

Mr. FORD. It seems to me that when you are talking about a country program—and we have been discussing this Taiwan situation—you maximize the difference between the annual appropriation process and the back-door financing process. I gather that is the way you discussed the situation with prospective recipients of this assistance. It is a maximization of the difference between the two procedures but when you talk to us or when others, including yourself, talk to this committee, if I read pages 13, 14, and 15 of your prepared text correctly, you minimize the difference between the procedures. Are you playing the game according to different rules depending upon with whom you are talking?

Secretary DILLON. No. I think this is very difficult to explain clearly but I think there should be no difference there. On pages 13, 14, and 15, we talk about the law and what we intend to do under the law as we interpret it. I also stated, and it is in my statement, that we would not expect the Congress to utilize their rights under the law that reduce these amounts except in very exceptional cases, in cases where there was clear error and waste. That, I think, is what the chairman has reference to when he talks about a shifting of the burden of proof. I do not think the burden of proof shifts from the Executive to the Congress but only in this way: That the Congress does not have to convince us but they would have a much greater burden with their own conscience in deciding to change something which they had already set forth in general terms.

#### REVOCATION OF COMMITMENTS

Mr. GARY. If they should change after a commitment has been made they would also be breaking the faith of the U.S. Government; would they not?

Secretary DILLON. Except that these commitments would all be made conditionally and it would be written right in them that they depend on Congress taking the necessary action.

Mr. GARY. Then if the foreign governments knew that they could be broken why would they have any more effect than they have now when they know appropriations can be made by the Congress?

Mr. ANDREWS. Will the gentleman yield?

Mr. GARY. Yes.

Mr. ANDREWS. Wouldn't we have the same situation we had last fall and last spring in connection with the Bogotá agreement? How could the Congress revoke a commitment that had been made?

Secretary DILLON. It would be very difficult. There would have to be very clear evidence to allow it, but technically they would have the right.

#### COMMITMENT UNDER BOGOTÁ AGREEMENT

Mr. PASSMAN. Is it not true that under the plans of the Bogotá agreement, assurances were given that there would not be any money spent until such time as the needed reforms had been carried out? Nevertheless, the Executive made the claim, and two Presidents said, "We made the promise, now give us the money." So, we did appropriate the money prior to enactment by those countries of tax and land reform laws; did we not?

Secretary DILLON. Yes.

Mr. PASSMAN. Are we now in a position to recall that appropriation? We no longer have the right even to reduce the appropriation. It has been passed by the Congress upon the basis of the fact that the Executive said, "Now we have made the commitment, and you will embarrass us if you do not provide the money."

Is something of that nature not the claim you made?

Secretary DILLON. Yes.

Mr. PASSMAN. Congress appropriated the money. After we give the money, it is more difficult to cancel an appropriation than it is to amend an authorization; is it not?

Secretary DILLON. Most certainly.

Mr. PASSMAN. So they use that as an excuse that we have entered into agreements. They agree to do certain things which they do not do. However, they want the money because, they say, we made the commitment. Would you not have the right to come back in subsequent years and say, "We entered into the commitments. They have not passed their laws, but we believe they will. Give us the money. We will try to get them to pass them." Would you not have the same type of argument that you had for the Bogotá agreements?

Secretary DILLON. As I said before, after Congress has authorized a given amount to be spent every year, there would have to be very substantial evidence to change and reduce that amount. Congress nevertheless would have the right.

#### CONGRESSIONAL APPROVAL PRIOR TO COMMITMENT

Mr. GARY. Why should not Congress have the opportunity to approve these commitments before they are made? That is what I am interested in.

Secretary DILLON. Just that long-term planning would be impossible.

Mr. GARY. No; all you have to do is work out your long-term plans, bring them to Congress, let us approve them, then you can go ahead with them.

LONG-TERM COMMITMENTS NEEDED FOR FINANCIAL PLANNING RATHER  
THAN PROJECT PLANNING

Mr. PASSMAN. Mr. Secretary, when you are talking about better planning, you are not talking about better planning of the projects and programs. You are talking about better financial planning. Have I stated that accurately?

Secretary DILLON. I think it is better finance planning in the recipient countries.

Mr. PASSMAN. It does not make for a better project?

Secretary DILLON. It has not to do with the technical part of the project.

Mr. PASSMAN. Essentially, it is for better financial planning, and not for better planning for the project?

Secretary DILLON. It carries with it such things as land reform, et cetera.

Mr. PASSMAN. But, you would not change the program or the planning or the project. We are discussing financial planning, are we not?

Secretary DILLON. I think that is the basis of it.

COMMITMENTS PRIOR TO COUNTRY REFORM LEGISLATION

Mr. PASSMAN. Again, if we would take 1 percent of the time spent on this propaganda about the advantage, and state frankly that it does not mean it will be a better planned program or project, but a better financed plan, we would be performing a public service. From what we have been discussing this morning, you obviously are saying, in effect, that it would be better if Uncle Sam would make agreements, approve authorization and say to the countries, "Here it is. You pass your laws. We have already passed ours. The money is available."

Is that about the answer to it?

Secretary DILLON. We would have the money available to us so that we could tell them that "If you do the proper things, these funds will be made available to you."

Mr. PASSMAN. As a banker, how would you like for me to apply for a million dollars for my business and state, "I do not have a financial statement. I do not know if this undertaking is going to be profitable, but if you will let me have the money I will do my best to operate this thing, and go into a different method of doing business. I hope I will make the money and pay you back. However, you will have to give me the money before I go out and rent the building."

Would you kick me out or have one of your assistants kick me out?

Secretary DILLON. I do not think that is comparable to what we are talking about.

Mr. PASSMAN. We are making this money available, committing it to them before they pass their laws; are we not?

Secretary DILLON. No. There is a lot of difference between making the money available to the Executive and the Executive making it available to other countries.

Mr. PASSMAN. This matter could be discussed two different ways; could it not?

I refer to this very program here, the one for Latin America. If the executive branch should change its views and withdraw the request, if it turned out to have been all wrong, would you find any defense of the new system, or would you stick with the one which we have been using?

Secretary DILLON. Certainly anyone who has had anything to do with foreign aid legislation from the President on down has always felt that it needed to have long-term authority to make long-term commitments.

Mr. PASSMAN. I am just asking the question. The President has not changed his mind on that since March, has he?

Secretary DILLON. No.

Mr. CONTE. If the gentleman will yield?

Mr. PASSMAN. Yes.

#### ASSISTANCE TO TAIWAN

Mr. CONTE. Mr. Secretary, I was interested in the question of Congressman Ford in regards to Taiwan.

Would you say that if you had back door spending programs, one of the leading reforms in Taiwan would be land reform?

Secretary DILLON. No. I did not say land reform.

Mr. CONTE. You mentioned land reform.

Secretary DILLON. That was one of the general things we like to do everywhere but land reform in Taiwan took place and the question in Taiwan is not further land reform but financial reforms.

Mr. CONTE. Wasn't land reform in Taiwan one of the best in that part of the world?

Secretary DILLON. Excellent. It was outstanding. It was an example for all the world, I think.

Mr. CONTE. And certainly we did that without any long-term planning?

Secretary DILLON. That is right.

Mr. CONTE. I was there in 1959. I felt very strongly in favor of their program. I talked to officials in Taiwan and viewed many of their projects. I received no complaints. They were quite satisfied with the program. I liked what I saw.

Secretary DILLON. I think all the projects are fine. This is merely a question of giving them a little extra inducement to carry out the program which they set for themselves, but which they haven't been able to carry through as well as they would have liked, I presume, or we would have liked.

Mr. CONTE. I think Taiwan was one of the countries in southeast Asia that had made tremendous social progress in comparison to let's say South Vietnam.

Secretary DILLON. I think so. I am not trying to say they did not make great progress.

#### LONG-TERM AUTHORIZATION WITH ANNUAL APPROPRIATION FOR DLF

Mr. CONTE. One other thing, Mr. Secretary, that troubles me on this is this: Why can't you come in here with a 5-year authorization bill with annual appropriations and accomplish the same purpose? You can go over to the country and say this is the sense and policy of the Congress and past experience shows that the Congress has lived up

to its responsibilities and therefore carry out these long-range programs with these countries?

Secretary DILLON. In the development lending field, the Congress has not shown very much interest when it came to appropriations. They have always reduced the amount that was authorized for development lending very substantially. So I think, based on the record, it would be very hard to convince other countries that an authorization for development lending had any great significance.

Mr. CONTE. Haven't we appropriated about 87 percent of the funds requested in the last 6 years?

Secretary DILLON. Not in the development lending field.

Mr. FORD. But we have for the last 14 years, when you take into consideration all of the economic and military assistance requested for appropriation against what was actually made available. Eighty-nine percent batting average is not a bad average for any league.

Secretary DILLON. In the development lending field the DLF had authorized in the last 4 years a total of \$2,925 million and had appropriated a total of \$2 billion, which included \$200 million in supplementaries so the original appropriations were about 60 percent of the original authorizations.

Mr. PASSMAN. For the so-called Development Loan Fund, it is true that we may have made greater reductions, but is it not also true that you had many other accounts—the "President's Contingency," "Defense Support," and other categories of aid—going into these same countries that were getting the so-called development loan?

Secretary DILLON. They were available for the same countries but they were not available for development lending.

Mr. PASSMAN. There was certain lending out of other categories.

Do you not make loans out of those categories, too?

Secretary DILLON. They make some loans, but not for development purposes.

#### UNOBLIGATED DEVELOPMENT LOAN FUNDS

Mr. PASSMAN. If you overstated your request from the executive branch in a 6-year period by \$6 billion—

Secretary DILLON. We did not overstate it.

Mr. PASSMAN. How do you account for the fact that although the Congress reduced the request by a total of \$4,565 million in the past 6 years, you wound up with an aggregate sum of approximately \$1.553 billion unobligated? Do you mean to say that you did not overstate your needs anywhere along the way?

Secretary DILLON. Yes.

Mr. PASSMAN. If you had a cumulative amount for the 6 years of \$1,553,600,000 remaining unobligated, as was the case, what would you have done with the \$4,565 million, if the Congress had not made the reductions?

Secretary DILLON. In the first place, it was not \$1.5 billion unobligated at the end. That was taken merely by adding together the amounts unobligated at the end of each year.

Mr. PASSMAN. I said the aggregate sum, the cumulative total.

Secretary DILLON. There is no such thing as an aggregate. The aggregate of the status of the DLF was, at the end of fiscal year 1961, out of its total of \$2 billion, there was \$334 million that was technically unobligated. It was all committed but technically un-

obligated. That is all that is unobligated. You get the \$1.5 billion by adding together the amount unobligated on each of the past years, which comes up to a total that is over \$1 billion.

Mr. PASSMAN. Mr. Secretary, I am speaking of the overall aid program. I know that the Department let \$538,800,000 lapse 1 year. They could not even reserve it, much less obligate it. That is when I was put on trial down at the White House.

Secretary DILLON. That was before my time.

#### EFFECTIVENESS OF PROPOSED PROGRAM

Mr. PASSMAN. There has never been any serious attempt in the past to switch this worldwide aid program over to the back-door approach. There has been one request, but it was not very seriously considered. We have had a program in the past, and we are going to have a program in the future, as a usual thing, you endeavor to come up with proof, rather than general statements. This is speculation. I think it will cost a total of, say, 25 percent more to do the same thing. Do you have a formula as to how much better the program is going to be, percentagewise, or how much worse it will be if you do not have your way?

Will it be 80 or 90 percent effective without it? Can we pin it down with something other than general statements? Are you going to improve it 8 percent, 10 percent? What will be the improvement, percentagewise?

Secretary DILLON. I think the only way you can judge this is by the possibility of maintaining the free world free and you are going to increase your capacity to do that.

Mr. PASSMAN. How, Mr. Secretary? Let us deal with the dollar part of it. Do you think the program will be 90 percent as effective without the President's request being granted, or will it be 88, or 96, or what?

Secretary DILLON. I would not venture a statement of that sort.

Mr. PASSMAN. You do not know of any nations that have run out on us simply because we did not have this long-time program, nations which said, "We won't go along with you and enter into this project," other than the two you mentioned?

Secretary DILLON. I think the conditions in some of these countries may deteriorate to the extent that we will lose them if they do not do some of the things they ought to do themselves.

Mr. PASSMAN. Which countries, specifically?

Secretary DILLON. I had better not pinpoint them.

Mr. PASSMAN. Since you will not pinpoint the countries—

Secretary DILLON. I can mention one where it has happened and that is Cuba.

Mr. PASSMAN. Do you know of any country that has received any more aid than Cuba over a long period—tourists from America, gifts from America, sugar subsidies from America, aid of all types from America?

Secretary DILLON. I am not talking about how much aid or how many tourists they had. I am saying there was a country where they did not take the internal steps necessary for economic and social reform until they had a revolution.

Mr. PASSMAN. If we are not careful, that will happen regardless of how much aid is given. You do not change a person's philosophy, religion, or much of anything else, with dollars. It depends on the people, where they are, and who they are.

Secretary DILLON. It is a combination.

Mr. PASSMAN. Mr. Rhodes?

QUESTION OF HAVING GREATER CONTINUITY UNDER NEW PROGRAM

Mr. RHODES. There was a question which was asked by the gentleman from Virginia which the witness should have an opportunity to answer. The question was this: After having pointed out the salient points of the plan under which we now operate and the plan which is envisaged by the administration, the gentleman from Virginia, if I am quoting him correctly, asked, "What is the difference? Congress could vary either program and why would the people in the other countries feel that the new program would give greater continuity than the old program?"

I think that is the most searching question which has been asked today and I think it ought to be answered.

Mr. GARY. Yes. I just assumed it could not be answered, but if it can be answered, I would like to have some answer to it.

Mr. RHODES. I think the Secretary should have an opportunity to answer it.

Mr. PASSMAN. I think that he should, and I think he should have an opportunity to answer my question, too. If he cannot pinpoint it, all right.

Mr. RHODES. Let's get the first one first.

Secretary DILLON. Your question is, why would countries have a greater feeling of responsibility?

Mr. FORD. And security.

Secretary DILLON. I would think the reason for that is that under the proposed program the United States would be able to make conditional commitments which these countries would feel were obligated to be carried out unless there were very exceptional circumstances, and with those commitments they would feel that they could be more secure in making decisions and making plans to change their fiscal systems, their tax systems, things of that nature than they do now when the funds are available only on a year-to-year basis.

Mr. GARY. You do make commitments now, do you not?

Secretary DILLON. Not long-term commitments.

Mr. GARY. You made commitments in this Indus Waterway project.

Secretary DILLON. That was a specific—

Mr. GARY. Why can't you get specific in others?

Secretary DILLON. That certainly might be possible, I presume, Mr. Gary. It would be very complicated.

Mr. GARY. But it would give the Congress an opportunity to pass on it. This plan would give you an opportunity to go out and make any commitment you wanted, bind the U.S. Government, and Congress knows absolutely nothing about it.

Mr. RHODES. If the gentleman will yield, I think, also, commitments have been made throughout the world without specific acts like the Indus situation.

Mr. GARY. Yes; they have.

Mr. RHODES. I am at a loss to know, Mr. Secretary, as to why this cannot be done, with the past record of appropriations which we have. You are changing the rules on development loans now. This is not going to be a soft-currency loan anymore. Perhaps this will be much more attractive to the Congress in the future than it has in the past.

Secretary DILLON. Yes.

Mr. RHODES. I cannot help but feel, as the Chairman does, that perhaps there should be some interest paid but if the bankers can swallow making a loan without interest I suppose the lawyers should be able to. However, I cannot do so.

Mr. PASSMAN. The committee will recess until 2 p.m.

#### AFTERNOON SESSION

Mr. PASSMAN. The committee will come to order.

We shall continue discussing the administration's request for funds for the mutual security program for fiscal 1962. Our distinguished Secretary of the Treasury, Mr. Dillon, again is with us.

I should like at this time to restate about three of my questions of this morning, for the purpose of clarification.

#### QUESTION OF CONGRESS CHANGING PRIOR COMMITMENTS OF THE EXECUTIVE BRANCH

Would this new proposal for long-range Treasury borrowing enable the executive branch to commit the United States, and place the Congress in a position of not being able to bring about reductions without being accused of violating the commitments; is that about correct?

If we could have an answer in language so the layman reading these hearings could understand, I think it would be better for all concerned.

Secretary DILLON. Well, this new proposal would enable the executive branch to make conditional commitments. As I pointed out, this would be subject to the fact there would be no later change by the Congress and it would put the Congress in a position where it would not wish, I think, to alter these commitments unless it was very clear there was something very wrong with one of them, that developments had changed to make such a commitment very inadvisable.

I think it would be very unlikely that Congress would want to change anything in which it made a commitment.

Mr. PASSMAN. Mr. Secretary, you always were very frank, but we get about the same answer in effect. I could jump off a 20-story building, but in the right frame of mind I am not apt to do so. We could, in theory, rewrite the Constitution in its entirety and then submit it to the people for ratification, but it is surely not expected that we would do so. Likewise, regardless of whether or not we felt we were entering into unsound agreements in this program, it would not be expected by the executive that the Congress would cancel the commitments?

Secretary DILLON. I would not quite agree with all those examples, but I think the final statement is correct that it is not expected you would change them without very exceptional or special reasons.

Mr. PASSMAN. What would be an exception, for instance?

Secretary DILLON. If the situation in some country was such as to be scandalous, or if war broke out, or if some situation occurred where it became impossible for the United States, for very clear reasons, to carry this same burden; it would have to be a very unusual situation.

Mr. PASSMAN. In effect, you would expect to commit funds and spend the funds without any serious protest or possibility of reversal on the part of the Congress?

Secretary DILLON. I think without—

Mr. PASSMAN. If the back-door approach should be approved?

Secretary DILLON. If the President's proposal should be approved.

Mr. PASSMAN. The President has a lot of proposals, but I pin this one down as the back-door approach, so people will know which one of the proposals we are talking about.

#### RESTRICTIONS ON EXECUTIVE COMMITMENTS UNDER BACK-DOOR FINANCING

Is there any legal restriction on the amount of funds the executive branch could commit in fiscal year 1962, if you should get the type of authorization you are requesting?

Secretary DILLON. Committed in 1962?

Mr. PASSMAN. Is there any legal restriction on the amount of funds the Executive could commit in fiscal year 1962?

Secretary DILLON. Yes, sir.

Mr. PASSMAN. What is it?

Secretary DILLON. If Congress would approve this in the authorizing act, and if the Congress would then, again under the Government Corporation Control Act, in accordance with this appropriation request, authorize the expenditure of funds, the only amount that the Government could legally commit would be the amount that was authorized for commitment this year, which would be the \$900 million borrowing authority plus the \$287 million of other funds—repayments.

#### COMMITMENTS TO INDIA

Mr. PASSMAN. Where are you going to get the money to run the program, if you have already committed \$545 million to India? Have you not done that for this year?

Secretary DILLON. That is committed subject to the approval of funds by the Congress.

Mr. PASSMAN. There is not very much left?

Secretary DILLON. I do not think it is \$545 million, anyway, but I am informed—

Mr. PASSMAN. This is what India said, and since we are going to dance to their music, I wonder whether or not they are going to rewrite this? Did you see this report?

Secretary DILLON. I did not see this particular piece of paper.

Mr. PASSMAN. That is what they say we have committed.

Secretary DILLON. This says \$545 million of which \$45 million was out of fiscal year 1961 funds. They have already received that.

Mr. PASSMAN. How much?

Secretary DILLON. \$45 million.

Mr. PASSMAN. That leaves what amount?

Secretary DILLON. That leaves \$500 million.

Mr. PASSMAN. That leaves only \$300 million out of \$800 million, if that amount is what you get?

Secretary DILLON. Some of it might possibly come from the Export-Import Bank. It is not all necessarily under the aid program.

No, this is a very large commitment and this is one reason why, I understand, the aid agency and the State Department feel that they need a total of, I think it is, \$1,187 million for this new development lending operation.

Mr. PASSMAN. How about the moral commitment, if there is any legal restriction? What would be the understanding on the part of the recipient nation if you should get this type of authorization and they started a project that is going to cost \$500 million, and you are only getting \$200 million? Would they feel you have a commitment to advance the other \$300 million, notwithstanding the fact that you say you are limited?

Let us say the amount requested for fiscal year 1962.

Secretary DILLON. That is for legal commitments. The administration would have the right, as we pointed out in my statement, to make conditional commitments against an amount of lending authority that had been approved for future years. These, in each case, are to be conditioned upon Congress authorizing the use of the funds each year.

#### AMOUNT THAT COULD BE COMMITTED CONDITIONALLY

Mr. PASSMAN. In effect, the executive branch could, if it should so determine, commit the entire \$8.8 billion during fiscal year 1962 on a conditional basis?

Secretary DILLON. They could commit \$1,187 million of it firmly, and they could commit the rest of it, which I think comes to about \$7.6 billion, conditionally, if—

Mr. PASSMAN. It could be committed, nevertheless?

Secretary DILLON. Conditionally, it could be.

Mr. PASSMAN. "Conditionally" in the foreign aid program usually means "conclusively." The evidence bears out that statement as a fact. At least, conditionally, you could commit the entire fund during 1962?

Secretary DILLON. That is—

Mr. PASSMAN. Conditionally?

Secretary DILLON. That is theoretically possible.

Mr. PASSMAN. Even probable, it is not?

Secretary DILLON. No; I do not think it would be probable although I am not the Administrator, so you had better talk to the Administrator about that.

Mr. PASSMAN. I think we agreed this morning that we are not talking about program or project planning. We are talking mainly about financial planning.

Secretary DILLON. That is right.

Mr. PASSMAN. Is that correct?

Secretary DILLON. Yes, sir.

## COUNTRIES HAVING LONG-RANGE DEVELOPMENT PROGRAMS

Mr. PASSMAN. What countries now have long-range development programs?

Secretary DILLON. India, of course, is the outstanding example of the successful long-range development program. Pakistan also has a long-range development program, and some of the South American countries are developing them. Brazil has a very good program for the northeast region of Brazil.

Mr. PASSMAN. Now in being, Mr. Secretary?

Secretary DILLON. Planned.

Mr. PASSMAN. We are trying to establish information as to those which are underway now, with going projects.

Secretary DILLON. The northeast area is their biggest and most difficult area.

Mr. PASSMAN. Are there any others you could indicate at this time?

Secretary DILLON. I would defer to the State Department for that. I am sure that there are, but I do not have that in mind.

Mr. PASSMAN. Would you supply that information for the record?

Secretary DILLON. We will ask them to do so.

## AMOUNT OF AID EXTENDED TO COUNTRIES WITH LONG-RANGE PROGRAMS

Mr. PASSMAN. That is, how much aid did we have extended to date by grant, loan, or gift, to those countries.

Secretary DILLON. To those various countries?

Mr. PASSMAN. Yes.

Secretary DILLON. We will have to supply that.

(The information follows:)

There are more than 30 of the less-developed countries which have prepared national development programs. However the soundness and adequacy of these plans vary widely. Some of these plans consist simply of a listing of planned public investment projects. However, AID will concentrate its resources and give priority to programs in which fiscal and monetary requirements of the total economy are taken into account and soundly planned, clear priorities are reflected, reasonable scope is given to development of the private sector, provision is made for carrying out through all its many phases the development effort projected and adequate emphasis is placed on the self-help measures which are essential for movement toward self-sustaining growth.

Thus far, the United States has evaluated and indicated support, subject to the availability of funds from Congress, for the current 5-year plans of India and Pakistan. Examination of a number of other national plans is underway or projected. [For example, a preliminary survey team has already reported on the current status of the second 5-year development plan of Nigeria, which is now being prepared and should be completed in the late fall. An examination of the completed plan will be undertaken by the United States at that time. From preliminary indications it is highly probable that the completed plan will warrant a long-range commitment in fiscal year 1962. In addition, a high level survey team will go to Tunisia in the fall to examine the status of that country's long-range development program which is now in preparation and another team will be sent to Brazil in order to appraise a long-range program for the development of the Northeast.] It is expected that at least 10 countries will qualify for priority development loan assistance in fiscal year 1962 on the basis of the competence of their development programming; the prospects for the effective use of their own, United States and other resources; the adequacy of their plans for self-help and the organizational arrangements and other means which will be available for the effective implementation of their development programs. In those countries where a comprehensive approach to development problems is inadequate or lacking, development loans will be extended for discrete projects and programs on a selective basis. Most of the development loan resources available in fiscal year 1962 will however, flow into those few countries where a sound, comprehensive approach to development is found.

## U.S. dollar assistance to India—Obligations and other commitments

[In millions of dollars]

	Fiscal year 1946-60	Fiscal year 1960	Fiscal year 1961
Mutual security economic aid:			
International Cooperation Administration.....	420.3	8.6	8.0
Technical cooperation.....	78.0	8.6	8.0
Special assistance <sup>1</sup> .....	342.3		
Development Loan Fund (loan approvals).....	366.3	171.3	180.1
Public Law 480.....	1,234.1	550.2	386.2
Title I—Grant loans.....	1,103.9	540.2	367.5
Title II—Emergency relief.....	4.9		.3
Title III—Voluntary relief agencies.....	125.3	10.0	18.4
Export-Import Bank (long term).....	165.5	13.7	80.7
Other U.S. economic programs.....	<sup>2</sup> 230.7		

<sup>1</sup> Excludes malaria eradication program.<sup>2</sup> Breakdown of this figure is as follows:

Emergency wheat loan.....	\$189.7
Lend-lease credit.....	29.2
Surplus property credits.....	11.2
Technical assistance.....	.6

## U.S. dollar assistance to Pakistan—Obligations and other commitments

[In millions of dollars]

	Fiscal year 1946-60	Fiscal year 1960	Fiscal year 1961
Mutual Security Economic Aid:			
International Cooperation Administration.....	591.4	97.1	103.1
Technical cooperation.....	44.2	7.1	7.5
Special assistance.....	547.2	90.0	95.6
Development Loan Fund (loan approvals).....	203.8	102.0	27.2
Public Law 480.....	385.3	94.9	38.5
Title I—Grant loans.....	305.8	93.7	36.1
Title II—Emergency relief.....	48.6		
Title III—Voluntary relief agencies.....	30.9	1.2	2.4
Export-Import Bank (long term).....	7.3	4.0	6.4
Other U.S. economic programs.....	67.8		

Mr. PASSMAN. I wonder if some of the supporting witnesses might have that information.

Secretary DILLON. I do not think so.

## ABANDONED PROJECTS

Mr. PASSMAN. You still have not recalled any project which we have abandoned, once started, because funds were not available to continue it?

Secretary DILLON. I said that is not the point.

Mr. PASSMAN. It is a point with this subcommittee, if not the Executive. We want some proof.

Secretary DILLON. That is not what we are asking these funds for. We are asking for funds to make commitments ahead which we cannot now make.

Mr. PASSMAN. I have read columns upon columns in the newspapers, and so have my colleagues, about planning projects and flood control projects, projects for deeper ditches, and more rice per acre, and so on.

## COUNTRIES PLANNING LONG-RANGE PROGRAMS IN FISCAL YEAR 1962

What additional countries will have long-range development programs, and what will be their effect in fiscal year 1962?

Secretary DILLON. I think that all countries of South America are in the process of planning such programs.

Mr. PASSMAN. Fiscal 1962?

Secretary DILLON. Yes, sir. All of the countries of South America are planning programs of that type.

Mr. PASSMAN. Thank you, but you are still making general statements, and not pinning it down to anything we can look at.

Would you know how much aid we have extended to them in the past?

Secretary DILLON. We will supply that for the record.

Mr. PASSMAN. If you were a judge, you would award us the verdict at this point, would you not?

Secretary DILLON. No; you are the judge.

Mr. PASSMAN. I would be willing to leave it to you personally. I do not think there can be any question as to what the decision would be.

Mr. Gary?

## FIRMNESS OF COMMITMENTS UNDER PROPOSED PROGRAM

Mr. GARY. Mr. Secretary, I would like you to explain how this proposed program would be more permanent, as you stated on page 13, than the present program.

Secretary DILLON. As I stated where?

Mr. GARY. On page 13, I think you stated this program would be more permanent.

Secretary DILLON. I want to be sure what you are referring to. I cannot find that.

Mr. GARY. You have stated, and have maintained throughout your testimony, that if this program is adopted, a commitment made by the Government would be more secure and more permanent than one under the present program. Would you state how or why that is?

Secretary DILLON. I think the only reason this is so, Mr. Gary, is that a country with whom you made such an arrangement would feel more secure if they had an expression of Congress that a certain amount of funds would be available each year. They would know that the executive, in all probability, would have these funds available to it.

Under the present system, you can do the same thing, as you pointed out this morning, if you have a specific large program such as the Indus water project and bring it to the Congress and Congress approves it.

There we are in just the same situation and the only problem I think we would see in using that procedure for all countries is that it is one of immense complexity. If you had to bring 70 different country programs to the Congress in complete detail each year, it would be really an impossible administrative problem.

Mr. GARY. Do you not think the Congress ought to know what a program is before this Government commits itself to a \$500 million program in India?

## STATEMENT OF CITIZENS COMMITTEE FOR INTERNATIONAL DEVELOPMENT

I have here a public statement unanimously adopted by the Executive Committee of the Citizens Committee for International Development. I do not know who that committee is, and I do not care, but they make this statement:

We agree with the President that the annual appropriation machinery through which foreign aid has been made possible in the past seriously impairs the effectiveness of our development efforts. Our agreements stem from our own experiences in our private activities, business, labor, and community management.

Do you believe that any business organization in the United States, any corporation, would permit its executive officers to enter into a \$500 million commitment without telling the board of directors what it is?

Secretary DILLON. I think \$500 million is a little big for any private business, a little big for the United States, too.

## COMMITMENTS WITHOUT CONGRESSIONAL AUTHORIZATION OF PROJECTS

Mr. GARY. That is what I am thinking. However, under this program, you could make commitments for \$8 billion without submitting any project or program for the approval of the Congress. You admit that in your testimony and I have here the hearings before the Committee on Foreign Relations of the U.S. Senate, and you stated there:

So there will be an opportunity by the Congress if they approve the actions through their Appropriations Committee to change, to reduce, if they so desire, or to limit—

I think it is a better word—

the amount of funds that might be expended under this program. However, if they took this action, this would certainly be contrary to the intent of the borrowing authority.

Secretary DILLON. Unless it is very exceptional I think that is right.

Mr. GARY. That is the point I am making. What you are doing is making these commitments which is tantamount to expenditures without any approval of the Congress of the particular projects or programs at all?

Secretary DILLON. It is quite true. If Congress feels they should approve each particular project ahead of time, this would not do it. Of course, that has not been the case for the last number of years under the Development Loan Fund. It was free to make commitments, but it had only a limited amount of funds each year.

Mr. GARY. That is exactly the point. The Departments then come before us and tell us what they propose to do with the money each year.

Secretary DILLON. Yes, but the Development Loan Fund has not been able to submit a list of the projects because that is just not practicable.

Mr. GARY. They have gone over with us—

Secretary DILLON. General outline.

Mr. GARY. They have discussed with us the applications which they have pending.

Secretary DILLON. That is correct.

Mr. GARY. This would permit them to spend billions of dollars without any previous review by Congress at all, and to commit the Government of the United States to a \$500-million program in India, a billion-dollar program in Afghanistan, if they wanted to, and the Congress would have nothing to say about it.

The only way that Congress could function would be after it is all said and done, to break the commitment, and put the United States in the position of not carrying out its promises; is that correct?

Secretary DILLON. That is correct, unless you wanted to work out some other way of having the Congress take a greater share of responsibility, such as making the commitment available through appropriate committees of the Congress, and letting them have a look at it before they became effective.

#### CONSTITUTIONAL REQUIREMENT OF APPROPRIATION PROCESS

Mr. GARY. I do not want to do a thing in the world but follow the Constitution of the United States which says that it shall be done by appropriations. Our forefathers worked out a very effective method and we have been living under it for many, many years, and we have done very well with it. Now you come in and want to set aside the whole thing and do away with the appropriations process and go into some new device of borrowing money from the Treasury, a back-door approach to the Treasury.

Secretary DILLON. This way of obtaining funds is an appropriation as defined in the Constitution, and Congress has so defined it.

Mr. PASSMAN. Will the gentleman yield?

Mr. GARY. Yes.

Mr. PASSMAN. Will the gentleman agree that during the past 6 years this committee, and I might say, with great difficulty, arrived at the conclusion that the Executive had requested too much money. The aggregate amount of the reduction made by the Congress during this 6 years was \$4,565 million.

It has been generally conceded, that the program has been improved as a result of the reductions—some of the top executive department witnesses have so testified—and the Comptroller General of the United States has stated that the program has had too much money, and not too little money.

#### CONGRESSIONAL RIGHTS TO EXAMINE AND REDUCE REQUESTS

Under the proposed process, this committee would be deprived of the right of examination, in order to make reductions, or remove the fat; would it not?

Mr. GARY. Certainly they would, without causing the Government to break its pledge with these people. Frankly, I voted—

Mr. PASSMAN. Which they admitted they do not expect us to do, whether the commitments are sound or not?

Mr. GARY. I went along last year with this Latin American appropriation and there we had committed ourselves. The Congress approved it and I thought it would have certainly been very improper, under the circumstances, for the Congress then to turn around and refuse the money.

I cannot escape the conclusion that the Congress ought to get into the act before these commitments are made. I do not think we ought to wait until after the horse has left the stable and then lock the door.

Mr. PASSMAN. Some of the fat which we have found in the bill, we have removed, and we proved to be correct. But, under this proposal, we would be deprived of that right in the future.

Mr. GARY. Certainly we would.

We would be deprived of any right of reducing except by breaking our agreements. Suppose we should have a war; we would then have to set aside all of these agreements, would we not?

Secretary DILLON. I think that that would be a totally different circumstance and you cannot foresee what you would have to do. You might well have to do that.

#### BERLIN CRISIS AND ITS EFFECT ON FOREIGN AID

Mr. GARY. Would it not be well before we went into a new program of this magnitude with an entirely changed procedure to get some idea as to what is going to happen in Berlin this fall? We have this crisis on us and in my judgment if we should get into a war over Berlin, our entire foreign air program should be reviewed. The vast expenditures which a war will entail will not permit us to continue with economic developments either domestic or foreign.

We have, in the past, always stopped all programs not related to the war and concentrated our efforts on the prosecution of the war, when we were in war.

We immediately cut down on our other activities at such a time; is that correct?

Secretary DILLON. I think that if you are in a major war, it is undoubtedly correct.

#### DEFINITION OF "APPROPRIATION"

Mr. Gary, I did want to answer your original question about appropriations. I think it may be of interest to you to mention a definition which the Congress has put on the word "appropriation" in the Budget and Accounting Procedures Act of 1950, where they indicated that the term "appropriations" includes, within an appropriate context, funds and authorizations to create obligations by contract in advance of appropriations, or any other authority making funds available for obligation or expenditure.

It is clear from that act, at least as far as the Congress has defined the word "appropriations" in law, that this method of financing is in accord with the Congress idea of what is constitutional.

Mr. GARY. If you are going to say an appropriation is not an appropriation—

Secretary DILLON. That is why Congress defined that.

Mr. GARY. In my judgment this is not an appropriation as contemplated by the Constitution of the United States.

## EXTENT COMMITMENTS ARE CONDITIONAL UNDER NEW PROPOSAL

You say these commitments are conditional, but to what extent are they conditional?

Secretary DILLON. They would write into each one of the commitments a phrase saying that it was conditional on the Congress finally approving the spending of the money each year.

Mr. GARY. Can you not enter into a long-term agreement and say it is conditional upon the Congress appropriating the money each year under the present law?

Mr. PASSMAN. That is the way it operates today.

Secretary DILLON. I think the President technically could do that and I think it has been done on a minor scale occasionally, but I think certainly he has felt, and the operating agencies have felt, it was not the intent of the Congress to do that and they would not like to be put in the position of facing commitments like that ahead of time. This is, in effect, what they are being asked to do here, to allow the Executive to do that sort of thing which the Executive has not felt free to do heretofore.

## SUBMISSION OF COMMITMENTS TO CONGRESS

Mr. GARY. Are you asking us to give you permission to enter into the long-term commitments without submitting them to the Congress at all? Is that what you are asking?

Secretary DILLON. Without submitting them to the Congress in detail prior to entering into them.

Mr. GARY. Exactly. They would be reported to the Congress after the commitments are made. Then there is nothing else to do and the only way Congress can curtail or stop the expenditure would be to violate the commitment or agreement.

Secretary DILLON. That is correct, but I think something might be worked out. As I said before, something might be worked out by submitting these plans to the Congress and let them lie before the Congress for a certain period of time before they become finally effective.

Mr. PASSMAN. Would the gentleman yield?

Mr. GARY. Yes.

## RELATIONSHIP OF PREVIOUS REDUCTIONS IN FOREIGN AID TO NEW APPROACH

Mr. PASSMAN. Mr. Secretary, we discussed this morning reductions made by the Congress in requests for foreign aid, especially the Development Loan Fund.

Could we draw from your answers that maybe the reductions which have been made by the Congress in prior years had something to do with the new approach to this matter?

Secretary DILLON. I do not think so. The new approach is to try to obtain this authority to make long-term funds available. All I had to say about the Development Loan Fund reductions was that there have been sharp reductions below authorizations. Therefore the mere fact of a long-term authorization I thought would not lead the recipient countries to feel that the appropriations would be identical with the authorization.

Mr. PASSMAN. Could I draw the conclusion now?

Secretary DILLON. I think the fact that these cuts were made was not the fundamental reason for this new proposal. The new proposal is a request to do something that was requested for the Development Loan Fund originally. We were refused the right on a long term. Three years was asked for then, and this time they are asking for 5 years, but the principle is the same, whether 3 or 5 years. It is to make commitments for a period of time.

#### SUCCESS OF THE FOREIGN AID PROGRAM

Mr. PASSMAN. Would you say that during the 15 years in which we have had a foreign aid program it has been successful to a very high degree throughout the world?

Secretary DILLON. Our programs?

Mr. PASSMAN. The foreign aid program as such.

Secretary DILLON. As a whole, I agree with you, Mr. Chairman. It has been very, very successful.

Mr. PASSMAN. Good, excellent, or fair? Your opinion, not mine.

Secretary DILLON. I would agree with you that it has been a beneficial reaction.

Mr. PASSMAN. If only "six bits," it would have been beneficial.

Secretary DILLON. Good.

Mr. PASSMAN. Would you say good, overall, or excellent?

Secretary DILLON. I think the results have been very good because you can only compare the results against what would have happened if there had not been one.

Mr. PASSMAN. If you do not get this proposed change, would we still have a successful foreign aid program?

Secretary DILLON. We would have a reasonable foreign aid program but not as effective as if we had had long-term authority to make commitments. As I said—

Mr. PASSMAN. Based upon past experience, would you say very good? You said it had been very good, did you not?

Secretary DILLON. I say the results have been very good.

Mr. PASSMAN. Why do you assume that it would not be "very good" in the future?

Secretary DILLON. I said very good compared to what would have happened if there had been no program.

I still stick by that, but it would have been a good bit better if you had had long-term planning and commitment authority.

Mr. PASSMAN. Even with your great experience, that is an assumption and you do not know; you are guessing, are you not?

Secretary DILLON. Naturally, we cannot tell.

Mr. PASSMAN. People think we are so free with money that they blow up the whole thing.

Do you think there is any ground for worry about making it too easy, and that we are too free and outright gullible?

Secretary DILLON. No, I think everybody who has worked with this program has come up with the same conclusion.

Mr. PASSMAN. I have worked with it, and I have not come up with that conclusion.

Secretary DILLON. I stand corrected.

Mr. PASSMAN. Thank you.

## LONG-TERM METHOD FOR U.S. PUBLIC WORKS PROJECTS

Mr. GARY. Mr. Dillon, do you advise this method for our public works projects in this country?

Secretary DILLON. I do not think we have found it necessary in the past.

Mr. GARY. Who built the Hoover Dam?

Secretary DILLON. I am not an expert on that. I presume the Government did.

Mr. GARY. Was it not a long-term project?

Secretary DILLON. I think so.

Mr. GARY. Was there any borrowing done in connection with this? Was there any back-door spending on that project? The money was appropriated by Congress, was it not?

Secretary DILLON. I think so.

Mr. GARY. If a dam of that kind can be built that way in this country, why can you not handle foreign dams on that same basis?

Secretary DILLON. If you could make long-term commitments that you would build one dam one year and another dam the next year, that is all we are asking for.

Mr. GARY. Before we can build a dam in this country there has to be a survey by the Army Engineers to determine the feasibility and advantage of it. They study the economic advantage and what return there will be. Then they report to the Congress and the project is referred to a congressional committee. It is reported out of the proper committees of the Congress and if it is authorized by the Congress it then comes to the Appropriations Committee. It then goes through exactly the same process we have used in the foreign aid program except that we never have required anything like as much show of necessity for a public works project in foreign countries as we have in this country. If we can do all of that in connection with our own public works why can we not wait long enough to get a plan worked out and have the Congress approve the plan before committing the Government to these expenditures in foreign countries?

## REFORM LEGISLATION ASKED OF FOREIGN COUNTRIES

Secretary DILLON. The only reason is that in a foreign country we are asking them to do much more. We are asking them to change their tax system. We are asking them to undertake land reform and things of that nature which go far beyond merely giving an engineering report on the feasibility of a dam.

Mr. FORD. Would the gentleman yield?

Mr. GARY. Yes.

Mr. FORD. In the case of India have we asked them to make certain tax reforms, land reforms in order for them to be partners in this?

Secretary DILLON. In the case of India we have not felt it was necessary because in India their program is pretty good. It is pretty hard to suggest a basic improvement. It is a different situation in Latin America.

Mr. FORD. How about Pakistan?

Secretary DILLON. As for Pakistan, I think we probably have been of more encouragement to them to make improvements, and they now have adopted a land reform program which is a reasonably good one.

Mr. RHODES. Would the gentleman yield?

Mr. GARY. Yes.

Mr. RHODES. You were not suggesting, were you, that we are bribing these people to make these reforms?

Secretary DILLON. No, they are reforms they want to make but they feel they need a certain amount of extra support to be able to carry them out.

Mr. GARY. Do you not think that if you reported to the Congress of the United States, that they did not want to make these plans, that that would be an additional reason for the Congress to appropriate money and it would be easier than otherwise?

Secretary DILLON. I think this would affect the Congress, yes.

Mr. GARY. All I am asking is they be reported to the Congress and the Congress be given the right to approve these commitments before they are made. There is no use in submitting them to the Congress after they have been made because then the Congress cannot disapprove them without welshing on a solemn pledge of the United States.

Mr. PASSMAN. Would the gentleman yield?

Mr. GARY. Yes.

Mr. PASSMAN. Is it not true that in our own country with relation to many of our projects for reclamation, flood control, and so forth, as well as for, say, hospital construction, we have outside witnesses appearing before a committee asking the Federal Government to support two-thirds of the total, for example, with the assurance that the State and local units of government will put up one-third? We tell them to go back and get their laws passed, their arrangements made for participation, and then bring it back over the signature of the Governor, or the responsible official of the authority involved, and then we will recommend our part.

Is that not about the way we operate in this country?

Secretary DILLON. I think that it is.

Mr. PASSMAN. Has that type of procedure not been successful?

Secretary DILLON. Yes.

Mr. PASSMAN. Do you not think these people might think more of us, and have more respect for us and the way we do business, if we should provide for the same type of cooperation from them, and especially so as some of these projects have waited 500 years to get started?

Secretary DILLON. There is a difference in our own case. We are dealing with our own people and it is our own people talking to our own people whereas when we deal with foreign countries we are talking to the people of another government, another sovereign people.

Mr. PASSMAN. We are giving something away. You are talking about the recipient nation, which is going to get something for nothing. It looks like you would have more of an argument for them to be a part of the same program, such as we do in this country.

Secretary DILLON. Their development is greatly in our own interest.

Mr. PASSMAN. Naturally, if that claim is going to be used, but I am talking about operating on a businesslike basis. If it is good for America to plan our projects, to let local interests raise their portion of the money and assure Congress they are ready to put up their part,

and then Congress puts up the Federal part, should it not also be sound practice abroad?

Secretary DILLON. It is a different matter when we are dealing with another sovereign people rather than your own people.

Mr. PASSMAN. Are they going to do any harm by passing needed legislation and getting their house in order? Do you not think the American taxpayer would feel a lot better about this proposition if he knew that we had provided for some reasonable type of cooperation on the part of the recipients, other than just some indication that they would make the needed reforms later, providing we let them look first at the whites of our eyes?

Secretary DILLON. This should move simultaneously. It should be a partnership, where they move ahead and we move ahead with them.

#### CONCERN OVER YIELDING CONGRESSIONAL CONTROL

Mr. GARY. Mr. Chairman, I have a very high regard for our Secretary and I have a high regard for his judgment but in this instance I cannot follow him. That is all there is to it. I just think this whole thing is absolutely all wrong and I am sorry because it puts me in a very embarrassing position. I have been supporting foreign-aid legislation for years but I cannot support it with that provision in the bill.

I just want to make my position plain, and I have no further questions at this time.

Mr. PASSMAN. I am more concerned about this proposal on the part of the Executive branch than about anything else that has happened in our Government since I have been a Member of Congress. I think we all know that if the Congress finally gives up control of the purse strings, then eventually it is giving up all controls. Our two greatest chores will be to answer our mail and cash our checks if we continue in future years, as we have in the past, in yielding Congressional powers and prerogatives to the executive.

Mr. GARY. I would like to say, Mr. Chairman, that the Secretary has filed with his statement a list of agencies which we have permitted to use back-door spending. Rather than being an argument in favor of his case, I think it is an argument against it. I think we made a mistake in every one of those instances and I think the country is suffering from it today. If we do the same thing in foreign aid then I think we have lost all control. That is the last straw and if Congress grants it Congress might as well adjourn and go home.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. I concur completely with the gentleman from Virginia.

Mr. RHODES. Will the gentleman yield?

Mr. GARY. Just one more question before I yield.

#### AUTHORITY OF INTER-AMERICAN BANK TO BORROW FROM DLF

Mr. Secretary, I believe the Inter-American Bank has the right to borrow from the Development Loan Fund, and then with the right of the Development Loan Fund to borrow from the Treasury, those funds could be used all down the line. Is that not correct?

Secretary DILLON. Theoretically, I think that is probably correct, yes. I heard about the development of that in the testimony of Mr. Cutler.

Mr. GARY. So it would not be necessary for the Inter-American Bank to come back to the Congress for any additional funds at all. They could just borrow from the Development Loan Fund, and the Development Loan Fund could borrow from the Treasury.

Secretary DILLON. They would be using up their authority, but if they wanted to do it in that way, they could. I do not think this is a likely supposition, but it is legally possible.

Mr. PASSMAN. Of course those so-called loans could follow the same pattern as the type we discussed this morning. I think we agreed this morning that these would not really be loans, but development finance, or some such term as that. They could follow the same pattern.

Mr. GARY. Development credits.

Mr. PASSMAN. Then, the same type of loans, so-called, could be made without any interest, on the same kind of terms; could they not?

Secretary DILLON. That is correct. They would have to be repayable in dollars, but they could be made on any terms; whatever the agreement provided.

Mr. PASSMAN. Where we firmed up our case here is that where they could borrow from the Development Loan Fund they would pay interest, but under the present proposal they would be able to get the money without paying any interest; would they not, theoretically?

Secretary DILLON. That is theoretically correct. All we are talking about, I think, is the ordinary capital of the Bank, and that is divided into even shares among the countries concerned, with the understanding that this would be supplemented to the extent that the Bank could borrow funds in the public market, the same as a bank does. Certainly an operation such as we describe, while I think the law legally would allow it, is not in accordance with the understanding of the way the Bank was set up, and I do not think the directors of the Bank would ever approve of it.

Mr. PASSMAN. How about your Development Loan Fund?

Mr. GARY. It could increase its capital by borrowing from the Development Loan Fund.

Secretary DILLON. Yes, but I think this would not every be done in this way. That is not what was contemplated. I think legally it is a loophole.

Mr. GARY. Then why was the provision put in the law giving them the right to borrow from the Development Loan Fund?

Secretary DILLON. They have the right to borrow from any place. Where the legal error, if any, was made, was in allowing the Development Loan Fund to lend to them.

#### INTER-AMERICAN DEVELOPMENT BANK LOANS AND DLF LOANS TO LATIN AMERICA

Mr. PASSMAN. What position are we going to be placed in with regard to this program for Latin America which is set up on the basis that interest will be paid, when you are proposing entering into similar agreements with other nations through which they are going to get the money for 50 years without any interest at all and

no payment on principal until after 10 years elapse, and then only 1 percent a year for 10 years, followed by 3 percent a year for 30 years on principal. What will be the reaction of the people and governments down in Latin America?

Secretary DILLON. Nothing, because this money will be available to them, also.

Mr. PASSMAN. Then, do you expect to have to compromise and place all of it on the same basis, or are you going to have to make them a loan of this type in order to keep them satisfied with the other they are borrowing, for which they agreed to pay interest?

Secretary DILLON. No. The social progress fund for which you appropriated funds this spring is for social development type projects, and is repayable in local currency and with some form of interest. Those are one case.

These funds are for economic development, repayable in dollars and with no interest. In addition to that, the regular funds of the Inter-American Bank, similar to the World Bank, would be payable in hard currency and with full interest. They need to use those, too, but those are not the only funds.

#### "BACK-DOOR" FINANCING FOR ALL LENDING AGENCIES FOR FOREIGN AID

Mr. PASSMAN. Theoretically, Mr. Secretary, if this legislation is given to the Executive as asked for, could all of the agencies get their money through the processes of the back-door approach? All they would have to worry about would be getting the authorization increased. They could by that process get all the money they want simply by getting the authorization increased, could they not?

Secretary DILLON. I think under the way this legislation is drafted, the Inter-American Development Bank is the only one of those international lending agencies which the United States, or any of its agencies, can lend to without specific congressional approval, even though the institutions themselves may have authority to borrow from the United States.

Mr. PASSMAN. If this legislation is approved, if we just want to pin it down and wrap it up and put the bow on it, that agency could use this clause in the legislation to get the money merely by increasing the authorization?

Secretary DILLON. As I said above, the IDB is the only international lending institution to which the United States may legally lend funds under present legislation.

Mr. PASSMAN. Knowing something about hair splitting downtown, I think we might reach the same conclusion, that that is just about what would happen.

Mr. GARY. It would be thoroughly unconstitutional, in my judgment, Mr. Chairman.

Mr. PASSMAN. It has been stated by the Secretary that it could be done by the IDB, if maybe not by others.

Under this proposed legislation, all they would need to do is to take the indirect approach, which is rather direct, and go to the Treasury and get the money, and not have to come before the Appropriations Committee?

Secretary DILLON. As I said, the Inter-American Bank could.

Mr. PASSMAN. You do not know but what the others could do the same thing?

Secretary DILLON. Only the IDB.

Mr. PASSMAN. We are talking about what they could do. We are thinking about what could happen. Legally, they could do just about what they wanted to, could they not, if they could get the authorization increased?

Secretary DILLON. Yes; if they could do all sorts of different things.

Mr. PASSMAN. There is no use to make the record any clearer than that. Thank you.

#### AGENCIES NOW HAVING BORROWING AUTHORITY

Mr. RHODES. I was looking at this booklet, "Act for International Development, Summary Presentation." On page 45 there is a list of Federal agencies for which borrowing authority is now given. I note in this list is included the District of Columbia. I note in the list which you have in your statement, the District of Columbia is omitted. I do not know whether you had anything to do with the preparation of this booklet, but do you have any knowledge which you would care to impart as to why the District of Columbia is included in the booklet and not in your statement?

Secretary DILLON. This list is made up by my staff in the Treasury Department. I do not know why they do not include the District of Columbia. The other list was made up by the people in the State Department. I would be glad to find out what the reason is.

Mr. RHODES. I would suggest that your people are more accurate than the State Department people, because the District of Columbia should not be in there. It has borrowing authority, but it is repaid. This is somewhat different.

Mr. PASSMAN. Mr. Natcher?

#### NEED FOR BETTER ALLOCATION OF FUNDS TO FOREIGN COUNTRIES

Mr. NATCHER. Mr. Secretary, I, for one, believe that one of the main reasons why we have experienced some of our troubles in our mutual security program is due to the fact that we simply will not recognize our failures during the past few years in allocating our funds to countries just because urgent requests are being made.

I am just wondering, under the President's program for long-range planning and the allocation of funds over a 5-year period, if we will change somewhat in our viewpoint as to how this money should be allocated to save the free countries of the world from going behind the Iron Curtain.

I know as well as you do, Mr. Secretary, that none of these countries should go behind the Iron Curtain, and certainly we do not want to lose a single one of them, but I do believe that unless we start concentrating now on countries in Asia, South America, and in other sections of the world, we will continue to make mistakes in this program that we have made all down through the years.

Today we recognize the fact that we made some mistakes in Laos, South Korea, and other countries. I do not believe that we can carry the burden for the world in this program or any other program where funds are to be allocated on a percentage basis to any hemisphere

or any section of the world. I believe we should now concentrate in certain countries.

How do you feel about that matter?

Secretary DILLON. As I understand it, I think that is the intent of the administering agency. I certainly would agree with you that a greater degree of concentration is a good idea. We have been moving gradually in that direction in the last 2 years anyway. Certainly I do not know of any time when they have divided funds on a percentage basis among areas.

I think you are quite right in thinking that would be very bad. I do think we can do more of this concentration. I think that is the idea of those who would be responsible for administering the program. Since that is not my responsibility and I have not had any part in discussing their detailed planning, I think they could answer that sort of question much better than I could.

The line you are pursuing, I think, is a fruitful one and an important one.

#### INDIA

Mr. NATCHER. Mr. Secretary, I believe we must concentrate on countries such as India. I do not think there is any question at all, if India goes behind the iron curtain, we are in serious trouble. I think that applies to a number of other countries. Appropriating so much money for Latin America is not good. We must concentrate and the results will be observed and respected. All down through the years I think we have made the mistake of using so much money in one section of the world when we should have concentrated on one or more countries in this particular section.

(Off the record.)

Mr. NATCHER. Mr. Secretary, assuming that Congress would go along with the President's program, would there be any change in the future in the methods used for the expenditure of these funds from the standpoint of trying to concentrate to save certain countries that would mean a great deal to the free world at this time? What change, if any, would take place if this program were adopted along that line?

Secretary DILLON. I think along that line, Mr. Natcher, the idea is that there would be somewhat greater concentration, particularly with the development lending funds, on countries which are important to us in the free world and which are able to make progress themselves in a self-help way. I think the program still calls for cash grants in the other parts of the program to some countries just to keep them going, but the substantially larger funds sought for development lending, in my understanding, will be directed more toward places which are important to us and which are making real progress.

An example of that, I think, is the agreement which was reached in connection with the World Bank to assign \$500 million to India, subject to congressional action, which is a very big lump of what was requested, over 40 percent.

#### INCREASE EXPECTED IN U.S. GOVERNMENT REVENUES

Mr. NATCHER. I am delighted to see your observation, Mr. Dillon, to the effect that in fiscal year 1963, our revenues are expected to increase substantially and should be adequate to meet all of our national

needs, both foreign and domestic. On what do you base that statement, Mr. Dillon?

Secretary DILLON. I base that on the best available evidence or the best available forecasts of the situation of our economy during the coming calendar year.

Mr. NATCHER. According to your observations, then, certainly no tax increase would be justified at this time.

Secretary DILLON. That is a different question which I do not know that we can answer at this time. I do not think any decision has been taken on that as yet.

#### BUDGET DEFICIT, 1961

Mr. NATCHER. As I recall, Mr. Dillon, just prior to the close of fiscal year 1960, we received reports here at the Capitol that the deficit would be from \$80 million to \$90 million, and I believe it turned out to be some \$3 billion. Is that not correct?

Secretary DILLON. The estimates were something around \$3 billion. It turned out to be \$3.9 billion. So it was \$900 million more than we had estimated, due largely to two things: Some last-minute spending for defense, which was considerably more than had been expected, in the last few days of June, and a very much larger flow of tax refunds than we had expected. I think that came from underestimating the effects of the recession on individuals, because some 2 million more people obtained tax refunds the past year than ever in the past.

#### EFFECT OF FOREIGN AID ON BALANCE OF PAYMENTS

Mr. NATCHER. Last fall I believe you and Secretary Anderson of the Treasury traveled abroad together, and your trip pertained mainly to our balance-of-payments situation as far as our country is concerned. In your statement you point out the fact that the preponderant bulk of foreign aid expenditures will be made in the United States, and that no adverse effect will result on our balance of payments.

Secretary DILLON. From expenditures made in the United States.

Mr. NATCHER. From expenditures made in the United States.

Mr. Dillon, do we suffer in any way any adverse effects from the foreign aid program, the mutual security program, insofar as our balance of payments is concerned?

Secretary DILLON. Insofar as funds are spent outside of the United States and do not come back to the United States, this enters into our balance-of-payments deficit.

#### PERCENTAGE OF FOREIGN AID SPENT IN THE UNITED STATES

Mr. NATCHER. What percentage of this money is expended in this country under the program at this time, Mr. Dillon—still about three-fourths?

Secretary DILLON. Three-fourths of the new funds. Actually, during last year the record was nowhere near that good because expenditures were being made under commitments which had originally been extended when the program was still operating under the worldwide procurement policy which you will recall had been the policy for some time. As I said in my statement, it will take some time to reach this goal because, for instance, the shift was made in policy of

the Development Loan Fund as far back as October 1959, nearly 2 years ago, but prior to that time some \$800 million worth of loans had been made, and as of this April only about one-third of those funds had been spent. There is some \$500 million still to go on a worldwide basis. So I would say probably we should begin to approach that 75 or 80 percent goal in fiscal 1963, but not this year. Each year it will be a little better, because in the ICA that operates more quickly. They went to the new system last December, and I think there will be a very clear effect of that in the present fiscal year, fiscal year 1962.

(Off the record.)

Mr. NATCHER. Thank you, Mr. Secretary.

#### ULTIMATE RETURN OF FOREIGN AID DOLLARS TO UNITED STATES

Mr. PASSMAN. I do not think it fair, and I do not think the Secretary or other witnesses appearing before congressional committees would like to leave the American people under the impression that because the money for foreign aid buys something in America, whether it be 75 percent or 99 percent, that itself makes it good. Is it not accurate to say that all dollars credited to foreign nations through foreign aid eventually are returned to America to buy our securities, to buy our gold, or to buy something we produce?

Secretary DILLON. So far, in the last 10 years, several billion dollars have not returned—

Mr. PASSMAN. I said when it returned. I say when it finally makes that last move, and comes back to America, it comes back for a security, to purchase gold, to purchase what we produce, or to apply on some debt. Is that not true?

#### EFFECT OF FOREIGN AID APPROPRIATIONS ON U.S. ECONOMY

Secretary DILLON. Under the present world monetary system, there are some several billions of dollars which have not returned and, if they did return, the whole world monetary system would collapse.

Mr. PASSMAN. Then, why do we not give away \$50 billion, if it will not return and have an effect on our economy? This ought to be cleared up. I am sure we are thinking about the same thing in different terms.

When we appropriate these funds, it is the taxpayers' money that picks up the check with the manufacturers.

Secretary DILLON. Yes.

Mr. PASSMAN. Are we in accord there?

Secretary DILLON. From the budget point of view, every dollar you appropriate has a very real effect on the taxpayer.

Mr. PASSMAN. But it is the taxpayers' money that picks up these tabs at the factories, and then we ship the goods abroad, with nothing coming back.

Secretary DILLON. When we said it was not an effect, we were talking only about a balance of payments effect.

Mr. PASSMAN. I am discussing a different angle, Mr. Secretary.

Secretary DILLON. I agree.

Mr. PASSMAN. We are in accord that it is the taxpayers' money that picks up the tabs on what we ship abroad through the aid program?

Secretary DILLON. Most certainly.

Mr. PASSMAN. In normal trade, these tabs at the factories are picked up by dollars those nations have earned with their exports. Is that a statement of fact?

Secretary DILLON. That is correct.

Mr. PASSMAN. So, in effect, there is very little justification on the part of a businessman or a banker to say that this thing should be looked upon favorably simply because the money eventually is spent here in America. What we ship out is a blank giveaway, and there is nothing immediately being returned to compensate the taxpayer. Am I correct in that statement?

Secretary DILLON. Nothing to compensate the taxpayer except greater stability in the world.

Mr. PASSMAN. I wanted that fact pinned down, because I have read these stories about, "Don't forget that this is spent in America." The taxpayer could take the same money and spend it for something else and leave it in America.

Secretary DILLON. That is correct.

Mr. PASSMAN. I do not think the American people should be left under an erroneous impression about this.

Secretary DILLON. Of course, when it is spent in America, it provides employment, but that is not the reason we are asking for the program at all.

Mr. PASSMAN. It is still being picked up by the taxpayers' hard-earned money.

Secretary DILLON. That is right.

Mr. PASSMAN. He is not getting anything back other than, as you say, a degree of security.

Secretary DILLON. That is right.

#### DOLLAR DEFICIT, 1950-60

Mr. PASSMAN. Am I correct in stating that from 1950 through 1960 we had a balance of payments dollar deficit of \$21½ billion?

Secretary DILLON. I do not have the figures in front of me, but if you state it, I will assume that is correct.

Mr. PASSMAN. Does that sound something like the correct figure?

Secretary DILLON. The last 3 years it was nearly 11 billion.

Mr. PASSMAN. The figure I stated does not sound out of reason?

Secretary DILLON. No.

#### INCREASE IN FOREIGN-HELD SHORT-TERM DOLLARS

Mr. PASSMAN. And, is it true that in the past 8 years foreign-held short-term dollars assets have increased from about \$10.5 billion to \$21.4 billion?

Secretary DILLON. That sounds reasonable.

Mr. PASSMAN. During the same period, our gold holdings have decreased from \$23 billion-plus to less than \$18 billion?

Secretary DILLON. That sounds reasonable.

## FOREIGN AID USED TO STOP THE SPREAD OF COMMUNISM

Mr. PASSMAN. The editor of the Wall Street Journal says:

It is amusing, the logic of foreign aid proponents who use stopping the spread of communism as the justification for their program, to wit: Country A received no foreign aid and turned communistic. Foreign aid would have prevented this, they claim. Country B received foreign aid but turned communistic. Not enough aid, they claim. Country C received foreign aid and didn't turn communistic. This proves our aid prevented the turn, they conclude. Country D received no foreign aid and didn't turn communistic. "No comment" or "irrelevant" is the answer. In short, there are no conditions which they will accept as proof that foreign aid has failed to halt the spread of communism.

We agree that our gold is diminishing, foreign dollar holdings are growing, our public debt is going up, and there is a thread of tax increase. Yet, there is no positive answer that any of the extravagant claims made for foreign aid can be pinned down.

Did you see this article?

Secretary DILLON. No, but I am well aware of the Wall Street Journal's thoughts on this subject.

Mr. PASSMAN. The record itself makes it clear how out of kilter this whole thing is getting, with our own public debt exceeding by about \$24 billion the combined debts of all other nations of the world.

I, myself, am not getting all excited and running to the shade because some foreign dignitary may have been invited to this country to make a foreign aid speech.

## RELIANCE ON PAKISTAN

Personally, I did not like it a bit, the idea of some foreign dignitary coming over and looking down at the Congress of the United States and saying, in effect, "You dare stop it." Or, when he said, in substance: "Pakistan is the only nation you can rely upon. If the chips are down, you couldn't get your foot in the door of the other countries. But if you give it to Ptkistan, then you can rely on us, and only us."

If he knows what he is talking about, he says that his country is the only one we can rely upon. Then we hear another group making a pitch for India. Whom are we going to believe?

Secretary DILLON. I do not think we should accept the statement of any statesman of one country regarding what other countries would do and concerning their importance to the United States. We must make that determination ourselves.

Mr. PASSMAN. Then why should we accept his statement about what is going to happen if we do not give the aid? If we are to discount his statements at one place, why do we not also do a little discounting with our pocketbook?

(Off the record.)

Mr. ANDREWS. He was interviewed in London on the way over here, and it was following that interview that Mr. Nehru said he was not representing the true facts.

Mr. PASSMAN. Some of my colleagues are more tactful than I am about these things.

(Off the record.)

Mr. PASSMAN. Mr. Montoya?

## TOTAL APPROPRIATION REQUEST

Mr. MONTROYA. Mr. Secretary, as I remember your statement, the total appropriation requested for the ensuing fiscal year under this program is \$4,763 million.

In addition to that, as I understand your statement and the justifications, it is requested that the President be given borrowing authority of \$1,600 million. Is that correct?

Secretary DILLON. For each of the 4 ensuing fiscal years after this coming fiscal year, that is right.

Mr. MONTROYA. Not including this fiscal year?

Secretary DILLON. Starting next year.

Mr. MONTROYA. Then in addition to that, there is provision for re-lending of approximately \$300 million which are expected in repayments.

Secretary DILLON. For each of the following 4 years.

Mr. MONTROYA. Not this fiscal year?

Secretary DILLON. Not this fiscal year. That is included.

Mr. MONTROYA. In addition to that, it is contemplated that there be the extension or giving of surplus commodities in the amount of the running average of \$1,500 million a year.

Secretary DILLON. That is correct.

Mr. MONTROYA. That will take place this year as well as the next four?

Secretary DILLON. That is true.

Mr. MONTROYA. And it might increase or decrease, as the case might be.

Secretary DILLON. That is correct.

## PROJECTED EXPENDITURES

Mr. MONTROYA. In reality, our expenditures on an average, for the next fiscal year, would be approximately \$3 billion more than the \$4.763 billion?

Secretary DILLON. No; \$1½ billion more.

Mr. MONTROYA. No; it is \$1,600 million each year in borrowing authority, plus the expenditure in commodities.

Secretary DILLON. But the \$1.6 billion is not part of the \$4.762 billion. That comes in the following fiscal year.

Mr. MONTROYA. But that is additional.

Secretary DILLON. You mean in the years in the future?

Mr. MONTROYA. Yes.

Secretary DILLON. It is not \$1.6 billion additional. It is \$700 million additional, because this year they are asking for \$900 million. So it would be \$700 million additional.

Mr. ALEXANDER. Was the \$900 million included in this \$4.763 billion?

Secretary DILLON. Yes.

## REQUEST FOR BORROWING AUTHORITY IN 1962

Mr. MONTROYA. Do I understand it to be the case that for this fiscal year you are asking for \$900 million in borrowing authority from the Treasury?

Secretary DILLON. That is correct.

Mr. MONTOYA. For the DLF?

Secretary DILLON. For what they call the developing operation. They won't have the same name.

Mr. MONTOYA. It is to be a successor to the DLF?

Secretary DILLON. Yes, sir.

#### PURCHASES IN UNITED STATES FROM FOREIGN AID LOANS

Mr. MONTOYA. Going back to your balance-of-payments statement, you indicate there that your goal is to eventually exact from the borrowers the obligation or commitment to purchase up to 80 percent in American goods with the dollars that we lend.

I take that to imply that we are not even close to the 80 percent now in the purchase of American goods on the part of our foreign borrowers.

Secretary DILLON. For economic assistance under the mutual security fund; that is correct.

Mr. MONTOYA. What would you say the United States is getting by way of business out of the dollars which we grant to foreign governments or out of the dollars which we lend?

Secretary DILLON. For calendar year 1960, of the amount of goods and services that were directly procured, either in the United States or abroad, by the ICA, DLF, and everything else that is in the mutual security bill, the percentage was about 43 percent. That was of direct procurement. In addition to that there was \$275 million of cash transfers, only a portion of which was spent in the United States. It is impossible to say how much of that portion was spent in the United States. Probably smaller than the 43 percent. I would say if you want to take a rough figure, 40 percent.

Mr. MONTOYA. Assuming that our annual expenditure in dollars is on an average \$5 billion—

Secretary DILLON. Now we are talking about something else because that includes the military assistance figure where the amount spent in the United States is 90 percent.

#### ECONOMIC ASSISTANCE EXPENDITURES IN UNITED STATES

Mr. MONTOYA. Let us confine ourselves to the total expenditures other than military assistance and that would be approximately—

Secretary DILLON. It was \$1.6 billion for economic MSP last year.

Mr. MONTOYA. \$3.4 million would be the balance, more or less, of expenditures.

Secretary DILLON. Last year the total economic MSP expenditures were \$1.6 billion.

Mr. MONTOYA. I am thinking of the overall appropriation, Mr. Dillon.

Secretary DILLON. Overall appropriation, leaving out the military, is—

Mr. MONTOYA. I am assuming the total figure rounded out is about \$5 billion and that \$1.6—

Secretary DILLON. \$1.885 million was the military request.

Mr. MONTOYA. Assuming the \$5 billion found figures, then we are spending in dollars outside, \$3.2 billion.

Secretary DILLON. Actually the figure works out here at \$2.9 billion for direct procurement both here and abroad under all our economic assistance programs.

PERCENTAGE OF TOTAL EXPENDITURES FOR AMERICAN GOODS

Mr. MONTOYA. All right, \$3 billion. According to your statement, out of that \$3 billion, foreign nations are only using 40 percent of it for procurement of goods produced in America?

Secretary DILLON. That has been the case for the economic MSP portion.

Mr. MONTOYA. So that would be \$1,200 million a year.

Secretary DILLON. That will not be the case with this \$3 billion.

Mr. MONTOYA. On the basis of previous history, we are expending outside the United States \$1,800 million, which is reflected in our balance of payments deficit?

Secretary DILLON. If we had not changed our policy that could be true.

Mr. MONTOYA. Do you know whether your policy will work?

Secretary DILLON. Yes. It already is working.

Mr. MONTOYA. You stated that last year we averaged more or less a 40 percent domestic trade with those dollars which we expended in loans or grants to foreign countries.

EXPECTED INCREASE IN U.S. GOODS PURCHASED

How much of an increase do you expect above that 40 percent during the current fiscal year?

Secretary DILLON. I would think that it would probably increase during the current year to somewhere between 50 and 60 percent of total direct procurement.

Mr. MONTOYA. Then we still have in terms of dollars an average of between \$500 million and \$700 million in deficit; is that right?

Secretary DILLON. That is based on past obligations, not on what we are doing here. As I pointed out, the DLF authorized and entered into loan agreements for \$809 million worth of loans before October 1959, when the policy was changed for them and only 270, one-third of that, had been disbursed as of the end of April so there was still \$540 million to go. It is the expenditure of those funds, a larger proportion of which will go abroad that causes this.

The figures are clear because since that policy was changed the percentage of procurement which is estimated to take place in the United States for the DLF, has gone up to an overall total of about 70 percent and if you leave out the development banks, where they give cash, it goes up to 87 percent. The policy is changing.

CHANGE IN LENDING POLICY TO "BUY AMERICAN"

Mr. MONTOYA. Haven't we tried to enforce that type of compliance throughout the years of our lending program?

Secretary DILLON. No. We had exactly the opposite policy before.

Mr. MONTOYA. As a matter of fact that testimony has been adduced before this committee year in and year out, that all these goods are

to a great extent and measure purchased in the United States. That has been the story before this committee.

Secretary DILLON. I think you are correct, Mr. Montoya. They have often pointed to the amounts of goods that have been bought in the United States. But over the years, until the fall of 1959, when the change was made, it has been an equally strong position of the executive branch that for the aid programs they should have worldwide procurement. The amount spent in this country was just that which happened to be spent here because we offered better terms or had better quality goods or whatever the reason was, but we were not trying to force countries or to tell countries they had to buy in the United States. We are now doing that because we simply cannot afford to give them dollars, although we do feel that we can afford to give them goods. That is the difference. So there has been a definite change in policy.

Mr. MONTROYA. What specific approaches has the administration inaugurated to bring about that change of policy?

Secretary DILLON. Well, in 1959, the DLF policy was changed so their loan agreements now specify procurement of the goods they finance shall be in the United States. Last winter when the ICA's policy was changed, a list of 19 countries was promulgated in which no purchases would be financed. Those countries were nearly all in Europe, the strong industrial countries of the world so we either purchase in the United States or to a much smaller extent we allow purchases in underdeveloped countries, but they do not have available many of the types of goods needed. It is only small purchases that are made there.

#### DEFERRED PRINCIPAL COLLECTIONS

Mr. MONTROYA. Wouldn't the balance of payments problem be further aggravated by the new and renovated policy of not collecting any principal on the loans until 10 years have elapsed?

Secretary DILLON. No. It would be improved.

Mr. MONTROYA. How would that be, if we do not get our dollars back?

Secretary DILLON. In the past we only got foreign currency. They never could be turned into dollars. At least now 10 years from now we will begin to get dollars back.

Mr. MONTROYA. That is in 10 years, and only 1 percent.

Secretary DILLON. It is a small amount. We get all of it back over 50 years whereas before we got none of it back.

Mr. MONTROYA. Have any informal commitments been made on this type of loan?

Secretary DILLON. There have been some informal indications of intent, subject to action by Congress.

Mr. MONTROYA. Is there any specific authority for this type of lending in the pending legislation?

Secretary DILLON. I think the language in the pending legislation just says, "on such terms or authority, or terms and conditions as the President may determine," but everyone is making perfectly clear that these are the terms that are looked forward to if the Congress should approve them.

Mr. MONTROYA. Do you know whether that statement has been made to the legislative committee?

Secretary DILLON. Oh yes. I am certain it has, to both of them, in the Senate and the House.

Mr. MONTROYA. Is the Export-Import Bank going to initiate that kind of policy, too?

Secretary DILLON. No.

Mr. MONTROYA. That is all.

#### U.S. PRICES IN WORLD MARKETS

Mr. PASSMAN. Mr. Secretary, I think we are in agreement that we are on the whole somewhat out of the world market from a competitive standpoint. I believe, for instance, that for cotton, which is produced in my State in large quantities, in order to meet the world market prices we have to subsidize it by about 8½ cents per pound. Is that your understanding?

Secretary DILLON. That is correct, but that does not mean we are out of the world market. We subsidize that cotton—

Mr. PASSMAN. When I say we are out of the world market, I mean that we are not competitive without the subsidy. If we should remove the subsidy, would we be competitive?

Secretary DILLON. The United States would be, but Louisiana cotton would not be.

Mr. PASSMAN. All cotton sold abroad is subsidized at 8½ cents a pound.

Secretary DILLON. That is right.

Mr. PASSMAN. Why do you want to subsidize other cotton, if we can meet the world market?

Secretary DILLON. Because we should treat cotton growers the same no matter whether they are on land that is productive or are not.

Mr. PASSMAN. I do not have the information at hand, but I would believe that Louisiana's production per acre is nowhere near the bottom of the list.

#### U.S. COMPETITIVE POSITION IN STEEL MARKET

How about steel? Are we competitive on steel products?

Secretary DILLON. In the case of certain special steels, yes. In the case of the ordinary heavy steel, plates, things like that, we are not.

Mr. PASSMAN. That is exactly what I am talking about. As to certain types of steel, some of our competitors in the world market can come to the United States, buy scrap material, ship it back to Japan, process it, and ship it back to the United States and sell it at a price of about \$30 or \$32 a ton less than we can produce it, and ship it from Pittsburgh to Louisiana, and sell it.

Secretary DILLON. We have certain specialized types of steel which we make here.

Mr. PASSMAN. I am talking about the bulk of it, the heavy material. On the bulk of it we are not competitive in the world market, are we?

Secretary DILLON. I think the bulk of our steel production is not competitive in the world market.

Mr. PASSMAN. If you consider all of these commodities, so far as unit and volume, there is an average subsidy of about 18 percent. I am talking about the overall.

Secretary DILLON. This must be agricultural commodities.

## SALE OF AGRICULTURAL COMMODITIES FOR FOREIGN CURRENCIES

Mr. PASSMAN. I am putting it all together. In agriculture we certainly are not competitive. We are still selling agricultural commodities for local currency, are we not?

Secretary DILLON. We do not have subsidy on certain commodities.

Mr. PASSMAN. If we do not, you give it away for local currency. Isn't that about a billion-dollar deal with India?

Secretary DILLON. Yes.

Mr. PASSMAN. Do we get any dollars back for that?

Secretary DILLON. No.

Mr. PASSMAN. If we get a lot of this local currency, that would be just about the equivalent of a gift; would it not?

Secretary DILLON. I would say so.

## TREND IN BALANCE OF PAYMENTS DEFICIT

Mr. PASSMAN. I am sure you know what I am leading up to, so far as the balance of payments is concerned. The fact that we have had a total deficit of, I think we established earlier, about \$21,500 million in the past 10 years certainly makes it clear that it has been out of balance.

Secretary DILLON. Certainly. Our balance of payments has been in deficit every year beginning with 1950 except 1957.

Mr. PASSMAN. In 1957 the favorable balance was only by about \$500 million.

Secretary DILLON. Yes.

Mr. PASSMAN. Last year, I believe, was the largest deficit. It was about \$3.8 billion.

Secretary DILLON. Yes.

Mr. PASSMAN. Through 1960, the tide is running against us on it.

Secretary DILLON. That is correct.

## FOREIGN AID PROMOTES SECURITY OF UNITED STATES

Mr. PASSMAN. When I say that foreign aid is not profitable from the standpoint of a return on the dollars we spend, but only for the security that we may get, am I making a statement of fact?

Secretary DILLON. It is primarily for the security we get, that is correct.

Mr. PASSMAN. When we ship our resources out of the country, whether they are fabricated or in the raw state, and nothing comes back in turn, that does not make for a good condition; does it?

Secretary DILLON. It makes for a good condition if it creates greater security.

Mr. PASSMAN. Let us talk about the dollar part of it now.

You and I agree, do we not, that if we continue shipping out our resources, the commodities that are finished, or the rough material, it is certainly going to have a bad effect on conditions in America if it continues too long. It will bring about increased taxes to support the program, will it not?

Secretary DILLON. It has to be supported by taxes anyway. It is part of our overall budget. There is no doubt about that.

Mr. PASSMAN. So far as any actual gain for America, other than possibly some security, the giving away of our natural resources, whether in the finished product or the raw material, is not to the advantage of America, is it?

Secretary DILLON. Security and humanitarian standpoint.

Mr. PASSMAN. I will add from the humanitarian standpoint. But, pocketbookwise, it is not to our advantage, is it?

Secretary DILLON. No.

Mr. PASSMAN. Thank you.

Mr. Alexander?

#### SAFEGUARD FOR U.S. ECONOMY

Mr. ALEXANDER. Mr. Secretary, I believe this program has been known as the mutual security program up to this time. Under the President's proposal it now becomes an "Act for International Development." That is in the summary program.

Secretary DILLON. That is the act name for it, yes.

Mr. ALEXANDER. I come from a section of the country where we are predominantly textile. Under this program, if it is passed as requested, what safeguards, if any, would there be that the State Department or the President could not establish textile mills or assist countries anywhere in the world?

The Congress, or no one else, could do anything about it, could they?

Secretary DILLON. No. They have agreed to a modification in the text of the bill which would provide the same as we had in the previous bill that in lending one of the criteria that would be taken into account is the possible effects upon the U.S. economy of the loan involved. So that would mean we would have to consider whether the particular loan involved would lead to greater competition and would be deleterious to the U.S. economy. Under that provision I do not think it would be proper to establish textile mills all over the world.

Mr. ALEXANDER. That is rather broad. If the State Department, in their wisdom, felt that it was furthering the interest of the United States, irrespective of what it was doing to one particular section of the country, it could be done?

Secretary DILLON. It would be contrary to the terms of the bill. I think under the understanding of what the law means, it should not be done.

We have operated under that same provision in the DLF for the last 2 or 3 years and I do not think they have made any loans that have been harmful to the U.S. economy in that time.

#### AMOUNT REQUESTED IN FISCAL YEAR 1962 PROGRAM

Mr. ALEXANDER. Under the 1962 program, I believe the total amount asked for is \$4,763 million, plus whatever is granted under Public Law 480.

Secretary DILLON. That is right.

Mr. ALEXANDER. Is there any other amount that we have not mentioned that will go into next year's program?

Secretary DILLON. I do not know of any. There may be some small amounts of reappropriated funds that—

Mr. ALEXANDER. Reappropriated funds, yes.

What about authority to collect interest that has been paid during that period?

Secretary DILLON. That is in the total.

Mr. ALEXANDER. How much of that figure, under this new program, would the President be able to grant as loans under this program?

Secretary DILLON. A total of \$1,187 million, as part of the development lending operation, which is the \$900 million in borrowing authority and \$287 million of these repayments.

Mr. ALEXANDER. And the balance would be used how?

Secretary DILLON. The balance consists of \$1,885 million of military assistance, and appropriations of \$1,691 million for the regular foreign aid program, including contingency funds and things of that nature.

#### CIRCUMSTANCES JUSTIFYING CONGRESS TO CANCEL COMMITMENTS

Mr. ALEXANDER. If I understand the program correctly, after the Congress would grant to the Executive the authority in the authorization bill, each year you would come back to the Congress for certain approval of the appropriations as set out.

Secretary DILLON. That is correct.

Mr. ALEXANDER. But the Congress would not have the authority to change it due to the fact that it would be committed or could be committed by the Executive previous to that.

These commitments would have almost the same effect as a treaty, would they not?

Secretary DILLON. No. Congress would have the authority to change it. They would have, I think, a moral obligation not to do it unless there were very special circumstances which had intervened to indicate that it was wise to do so.

These provisional or contingent commitments would have validity. They would not have the validity of a treaty, which is something you cannot change under any circumstances, ordinarily, but they would have a considerable moral obligation attached to them.

Mr. ALEXANDER. Suppose you make an agreement with country X to grant or to loan Y amount of money over a period of 5 years at so much each year, and the internal conditions of country X change to such an extent that the government is no longer friendly toward the United States. They are using the money to our detriment. What would then be the situation?

Secretary DILLON. I was asked that same question both before the Foreign Relations and the Foreign Affairs Committees. I think it is a very good question. I think, certainly, we would be very remiss if we did not make provision in such long-term commitments for cancellation of the commitments in that sort of an eventuality.

Mr. ALEXANDER. We would be legally bound, would we not?

Secretary DILLON. It depends on the commitment as made. We could make the commitment in the form where we would not be legally bound if the country left the free world.

Mr. ALEXANDER. If you did that you would not be in any better shape than you are right now, depending on the Congress, year by year, to appropriate the funds.

Secretary DILLON. I think we would. I do not think any of these countries expect to have a revolution and leave the free world. If they did, we ought to have the right to cancel our commitments.

Mr. ALEXANDER. Suppose we go ahead and make these commitments. Then this country would have a recession that would rock the boat terrifically. Then where do we stand?

Secretary DILLON. I think if you had, which I do not expect—

Mr. ALEXANDER. I certainly do not hope for one.

Secretary DILLON (continuing). But if we had the 1930 type of situation, I think that would be the type of situation where the Congress might very well want to cut back on these funds. That would be understood.

Mr. PASSMAN. Have we not experienced recessions and depressions of differing magnitude over a period of years? They have been coming and going since the beginning of America.

Secretary DILLON. We hope since the last great depression and since the last World War we have found a way to avoid such extremes.

#### U.S. DEFICIT

Mr. PASSMAN. We did not find a way of avoiding a deficit of \$13 billion a few years ago, did we?

Secretary DILLON. We won't have a \$13 billion deficit.

Mr. PASSMAN. We did not think so that period either, did we?

Secretary DILLON. No.

Mr. PASSMAN. I want to say this respectfully, but just where have we come up on this new approach to assure that we are not going to have a repetition of what happened 3 years ago? You were on the team then and you did not see it coming, did you, Mr. Dillon?

Secretary DILLON. That wasn't my area.

Mr. PASSMAN. I certainly do not mean to be discourteous, but do you mean to indicate that you could have stopped it if you had been in that area?

Secretary DILLON. No. I do not say I would.

Mr. PASSMAN. We had it, and it was unexpected. That was only 3 years ago.

Secretary DILLON. There were increases in expenditures at that time, greater increases.

Mr. PASSMAN. Is it not true that we are now anticipating just about double the deficit this year that was anticipated a few months ago?

Secretary DILLON. We had a \$3.9 billion deficit, and in March we anticipated \$2.2 billion and in January we anticipated a surplus and last September we anticipated a bigger surplus and the January before we anticipated \$4 billion surplus.

Mr. PASSMAN. Even with a great knowledge of how to control these matters in the future, we could have a recession or depression, could we not?

Secretary DILLON. I think you can have deficits and I think you can have recessions, but I do think that we have evolved a mechanism here which seems to have worked since the last war in mitigating the severity of recessions so we have had nothing like we had in the 1930's. I hope that will continue. I think there is good reason to think it will.

## PROJECTION OF FUTURE BUDGET EXPENDITURES

Mr. PASSMAN. The Director of the Budget Bureau in the Eisenhower administration pointed out that if we put together all of our obligations that would call for payout of money in subsequent years, but which are already on the books, we will pay out \$800 billion in meeting these existing commitments.

Secretary DILLON. I am not familiar with that.

Mr. PASSMAN. He stated that in substance, if we should adjourn the Congress sine die and never pass another bill calling for payout of money, it would require about \$800 billion over the years, to fulfill the obligations that are presently on the statute books. Will a condition such as that help prevent a depression?

Secretary DILLON. It is the whole mixture of the various economic programs that we have developed since the war which does that, including our tax system, unemployment compensation, et cetera.

## STATE OF U.S. ECONOMY

Mr. PASSMAN. I wonder why we waited this long to find a cure for all the ills?

Secretary DILLON. I do not think we are cured at all when we have 7 percent of our work force unemployed.

Mr. PASSMAN. You have given me some new hope. If we have some program in the making that looks as if we have found a way to prevent future recessions and depressions, then I feel encouraged.

Secretary DILLON. I am not optimistic enough to feel I can foresee the prevention of all future recessions, although that is a worthy goal to work for, but I think the chances of a depression of the type we had in the 1930's are very slim.

Mr. PASSMAN. Not of that type, I feel sure.

Secretary DILLON. Of that magnitude.

Mr. PASSMAN. We could be seriously depreciating the purchasing power of the dollar; we could get in trouble down the way by these processes, could we not?

Secretary DILLON. Yes.

Mr. PASSMAN. If we should get in that kind of trouble, Mr. Secretary, since we have in the past, it could happen in the future—

Secretary DILLON. Of the severity we have had in the past without a war or something? I do not foresee it, but I still think we have some very difficult, unanswered problems, which automation bring with it, and our problems of unemployment are very difficult. We do not have solutions for them at all.

Mr. PASSMAN. I know we are thinking about the same thing, that about 23 million Americans are now getting a Federal check every month. If that figure gets too high, one of these days half the people could be working to take care of the other half. Then, if we try to take care of people around the world, there is a possibility of getting into real trouble, if we do not watch this thing, would you not think, Mr. Secretary?

I am putting domestic and foreign together.

Secretary DILLON. There is always a possibility of getting in trouble.

Mr. PASSMAN. I, myself, have missed meals. I am not the oldest man around, either. Let me tell you that cornbread without any

seasoning is a pretty rough diet. Those things could come. We should never be pushed into that position. Our own economy has 7 percent unemployed now. Our budget deficit since January has gone from \$2.2 billion to \$3.9 billion. Things could happen. I am wondering whether, if we went too far with the domestic and foreign programs, and we had to withdraw from some of these commitments, if you get the authority you ask, then would we not be in a rather bad spot with these countries?

Secretary DILLON. Yes. We should never go too far with any program.

Mr. PASSMAN. It is a question of a meeting of the minds between the legislative and executive branches as to how far we should go. Is that not a fair statement?

Secretary DILLON. That is how it always is. That is the way our legislation was developed.

#### DEVELOPMENT CREDITS FOR SPECIFIC PROJECTS

Mr. PASSMAN. I think you were very fair today to correct me when I referred to these credits as loans.

Secretary DILLON. You asked me what they should be called.

Mr. PASSMAN. You are very fair. Many people think of these things as loans. Will these development credits be made for specific projects in every instance, or will they also be for sectors of the economy of the recipient nations and used by them as they may deem appropriate?

Secretary DILLON. As I understand it, it is rather carefully spelled out in the legislation, but it will be not only for specific projects but also for helping specific development programs in the more general sense where that seems to be appropriate.

Mr. PASSMAN. We have had direct budgetary support of nations in the past, have we not?

Secretary DILLON. I do not think it is of that type.

Mr. PASSMAN. But we have had that type of program.

Secretary DILLON. Yes.

Mr. PASSMAN. As a matter of fact, we have some now, do we not?

Secretary DILLON. Yes, in grant areas of the foreign aid program.

Mr. PASSMAN. Since this is akin to a grant, do we have positive assurance that there will be specific projects and programs in every instance?

Secretary DILLON. Specific projects or specific development programs.

Mr. PASSMAN. Anything you spend in a country is supposed to be for development. I am talking about a program that we can pin down and look at, whether it is a highway or whatever else it might be.

Secretary DILLON. In India if they have a highway or road program you might make funds available for that in general rather than for a particular bridge here or there.

Mr. PASSMAN. It is broad enough that they can do just about what they think they need to do to support the economy in their country?

Secretary DILLON. Yes. It is much broader than the DLF finally ended up.

Mr. PASSMAN. Should we not know how much broader?

Secretary DILLON. Yes, sir.

Mr. PASSMAN. Where has it been pinned down to where we start and stop on it?

Secretary DILLON. I would not be the most competent witness to give you the detail of that, but I think either Mr. Coffin or Mr. Labouisse could elaborate on that as much as you desire and I think they should.

#### CANCELLATION CLAUSES IN AGREEMENT

Mr. PASSMAN. Under these contracts on this development credit proposal, will there be any cancellation clause on any of the agreements?

Secretary DILLON. I would think that there would be under certain circumstances, but, again, that is a thing for the administrator of the program.

Mr. PASSMAN. If we should deem it in the interest of America, it could be?

Secretary DILLON. That is right.

Mr. PASSMAN. Even though we do not think of it as a loan, but getting in the shadow of a loan, if it should be in the interest of America, according to those who administer the program, it could be done under the program? Could they cancel repayment requirements?

Secretary DILLON. So they would not be repaid?

Mr. PASSMAN. Yes.

Secretary DILLON. I do not think that provision would be in there.

Mr. PASSMAN. Could you give the committee the assurance that there will be no cancellation of requirements for payments?

Secretary DILLON. That is a different matter.

Mr. PASSMAN. There is always a possibility the loans will be canceled?

Secretary DILLON. There is always that possibility in any loan.

Mr. PASSMAN. We would not be able to take these loans and borrow money on them ourselves. It would not be good security, would it?

Secretary DILLON. No.

Mr. PASSMAN. Thank you for yielding, Mr. Alexander.

Mr. ALEXANDER. I yield to Mr. Gary.

#### COST OF PROPOSED 5-YEAR PROGRAM

Mr. GARY. On page 9 you say—

I am convinced as Secretary of the Treasury that this is the most efficient and least costly method of providing development assistance.

You were speaking there of the borrowing authority.

Secretary DILLON. No. I was speaking of long-term authority. I think the borrowing authority is probably the most effective way of carrying it out.

Mr. GARY. How does your present 5-year plan, which amounts to \$8,800 million, compare with development assistance of the past 5 years?

Secretary DILLON. In the amounts?

Mr. GARY. Yes.

Secretary DILLON. It is larger, considerably larger, because it compares to the Development Loan Fund, which has been getting about \$550 million a year on the average. It got \$600 million this year.

Mr. GARY. Then it will not be any less expensive than the other plan?

Secretary DILLON. It is more money, but you are getting more for it.

#### ADVANTAGES OF NEW PROGRAM

Mr. GARY. What are we going to get for it? That is what Congress wants to know. Tell us what we are going to get for it.

Secretary DILLON. You are going to get more security in developing countries of the world, more development, so they will move faster.

Mr. GARY. We have been told that for a long time. When we see these countries constantly slipping behind the Iron Curtain, we wonder who is getting what?

Secretary DILLON. We think if this program is adopted, they will stop slipping.

Mr. GARY. Is there any guarantee of that?

Secretary DILLON. It is not up to me to guarantee it.

Mr. GARY. That is all.

Mr. PASSMAN. You also will have other types of grant programs, will you not? Aren't you going to continue the other?

Secretary DILLON. That is correct. That part of the program will eventually decrease.

Mr. PASSMAN. You will get them under the same program?

Secretary DILLON. Not all of them.

Mr. PASSMAN. But many of them. It will gradually decrease as the others increase?

Secretary DILLON. Yes.

#### ASSURANCES OF NECESSARY REFORMS BY FOREIGN COUNTRIES

Mr. ALEXANDER. Mr. Secretary, under this long-term program, the advantages are supposed to be that the executive, or the person in charge of this program, would be able to get more cooperation and greater help out of the country receiving the aid if they are assured and can make arrangements and agreements over a period of 5 years than they can with 1 year.

Are there any assurances that we are going to have a prerequisite of land reform, tax reform, et cetera, before we sign this agreement under this program?

Secretary DILLON. Certainly that is the intent of the program, as was spelled out by the President in his message, as spelled out in the presentation books, spelled out in that little booklet describing the program.

The exact way in which that would be carried out is something for the administrators of the program to describe and what their intentions are. I am not aware of exactly how they will administer this or exactly what their requirements will be, but that is the general theory of this program.

Mr. ALEXANDER. I know it is the theory, but ordinarily, unless it is latched down prior to the authority given, unless there are strong assurances made, ordinarily they work on the basis of doing the best they can with a bad situation.

Secretary DILLON. I think that is a question that could be answered much better, again, by the administrators of the program than by myself.

#### DISADVANTAGES OF NEW PROGRAM

Mr. ALEXANDER. Don't you think that along with the advantages of this that there would be certain disadvantages, other than the constitutional question of the Congress giving up its authority, such as, for instance, if a country signs an agreement for over a period of years, it knows exactly what it will get, and it then can take a little different attitude. Maybe it is playing the Communists and us against one another. Isn't there some danger of that kind of thing?

Secretary DILLON. I think that would fall in the competence of the State Department, and I gather the Secretary of State does not feel that way. He feels that the balance would be solidly the other way—in our favor.

#### IMPROVEMENTS IN ADMINISTRATION

Mr. ALEXANDER. Are there any specific changes in the program other than improvement in the administration part of it and the loan features that are worthy of note?

Secretary DILLON. I think not. I think the lending and new administration, more centralized administration, are the main change.

Mr. ALEXANDER. Actually, practically all of the same people that have been in the program will continue in the program? There has been no particular change in personnel?

Secretary DILLON. They have quite a few new people. Again I would say that Mr. Labouisse would know far more about that than I do.

Mr. ALEXANDER. That is all, Mr. Chairman.

Mr. PASSMAN. Mr. Ford?

#### SUPPLEMENTAL REQUEST

Mr. FORD. Mr. Secretary, assuming that the Congress approves the authorization bill as requested for this program, I am interested in the next step. I presume then that we would have before us for consideration the Document No. 208, submitted to the Congress July 6, 1961, by the President. That would include the paragraph on page 2 under the heading "Development Loans." Mr. Chairman, I ask at this point that that paragraph be included in the record.

Mr. PASSMAN. The text of the paragraph will be included at this point.

(The information referred to follows:)

#### DEVELOPMENT LOANS

There are hereby authorized to be made such expenditures, pursuant to title I of chapter 2 of part I, within the limits of funds and borrowing authority available under that title and in accordance with law, and such contracts and commitments, without regard to fiscal year limitations as provided in section 104 of the Government Corporation Control Act, as amended, as may be necessary in carrying out the programs set forth in the budget for the current fiscal year for operations under that title.

Mr. FORD. Mr. Secretary, do you have that before you?

Secretary DILLON. Yes, sir.

## EXPORT-IMPORT BANK

Mr. FORD. In the budget of the United States for fiscal year 1962, page 136, under the heading "Export-Import Bank of Washington," there is the following language:

The Export-Import Bank of Washington is hereby authorized to make such expenditures within the limits of funds and borrowing authority available to such corporation and in accord with law, and to make such contracts and commitments without regard to fiscal year limitations as provided by section 104 of the Government Corporation Control Act, as amended, as may be necessary in carrying out the programs set forth in the budget for the current fiscal year for such corporation, except as hereinafter provided.

That language for the Export-Import Bank is virtually similar to the paragraph I mentioned earlier in Document 208 with one exception. The exception is, and I quote:

except as hereinafter provided.

That is the language that is in the Export-Import Bank paragraph, and not in the development loan paragraph.

If I understand your testimony and prepared statement, you would have no objection to the inclusion of that paragraph in the appropriation bill for this program?

Secretary DILLON. Well, the reason for the exception in the Export-Import Bank is that there follows a limitation on expenditures which is set by the Congress each year on expenditures for administrative purposes.

No such limitation is required in the case of the development loan operation since the entire funds for administrative operations are subject to appropriation under the appropriation titles and none of the funds available for the development lending can be used for the purpose of paying administrative expenses. That particular exception does not apply in this case, but certainly there is no difference legally between the Export-Import Bank and this loan operation.

It would be possible to set limits on the Export-Import Bank just the same as it is possible to set them here.

## LIMITATIONS ON EXPENDITURES

Mr. FORD. By including that paragraph, the Congress could impose limitations?

Secretary DILLON. They could here, too. We said that Congress could do that in our statement and we are requesting them not to propose a limit, but they could. The difference is that they have requested a limit because there is always a question of a limit on expenditures for administrative purposes.

Mr. FORD. This would be the procedure by which a limitation on expenditures could be made?

Secretary DILLON. Correct; for operational purposes.

Mr. FORD. For operational purposes. I trust you use that in the broad sense?

Secretary DILLON. In the broad sense; yes. I just mean as against the administrative expenses. The administrative expenses are the subject of an appropriation here because the Administrator is a part of the AID agency.

Mr. FORD. Still assuming that this legislative authority or back-door financing is approved, if the committee, and subsequently the Congress, wanted to limit the \$900-million amount, this would be the method by which that could be done?

Secretary DILLON. That is correct.

Mr. FORD. That is, in effect, what you have said in your prepared statement and testimony?

Secretary DILLON. That is correct.

Mr. PASSMAN. Would the gentleman yield?

Mr. FORD. Yes.

Mr. PASSMAN. Gentlemen, the hour is late and in all probability the Secretary has other work that he needs to do.

Would the gentlemen be willing to recess until tomorrow? Then you could resume your interrogation, Mr. Ford.

Secretary DILLON. Mr. Chairman, I wanted to say that the President has asked me to keep myself available tomorrow morning to work on his statements to the Congress and to the country, which I have not yet had the time or the chance to see, and which will be only available this evening. I do not think I will be able to come back tomorrow morning. I could continue now for another hour, if that is practical.

Mr. PASSMAN. Does the gentleman prefer to continue?

Mr. FORD. I have one or two more questions and one particularly, I would like to ask today.

Mr. PASSMAN. We shall recess after that until Mr. Dillon can return.

#### TRANSFER AUTHORITY FOR MILITARY ASSISTANCE PROGRAM

Mr. FORD. In section 510(b) of the proposed authorization bill, there is the following:

The Department of Defense is authorized to incur applicable appropriation obligations in anticipation of reimbursement in the amounts equivalent to the value of such orders under subsection (a) of this section. Appropriations to the President of such sums as may be necessary to reimburse the applicable appropriation fund or account for such orders are hereby authorized.

It seems to me that if subsection (b) is enacted into law it authorizes the President to make obligations without specific appropriations to an indefinite amount up to \$400 million; is that your understanding?

Secretary DILLON. I think so. As I understood this, the purpose of this was, in case there should be an emergency in any year, such as the one we had in the offshore islands a few years back, and situations that seemed to be developing in southeast Asia this past year, there would be authority to use Defense Department stocks up to this amount for military assistance purposes, if that was felt necessary by the President.

I think that was the subject of this matter. It is primarily a question of the best use of military resources.

#### PAST TRANSFERS FROM MILITARY STOCKS

Mr. FORD. Of course, the Formosan Straits problem was handled without this legislative authority?

Secretary DILLON. That is right.

Mr. FORD. Handled effectively?

Secretary DILLON. I think at that time we probably had bigger backlogs in our military assistance pipeline than we do now. But whether that was true or not, in that particular situation, I have not personally had the occasion to devote any great deal of consideration to it.

Mr. FORD. This figure of \$4,763 million, which is the amount you indicated was being requested for fiscal year 1962, you do not include, I gather, the \$400 million?

Secretary DILLON. That is correct.

Mr. FORD. Yet, if section 510 (a) and (b) are enacted into law, the President, on his own, can commit the Congress to an additional \$400 million?

Secretary DILLON. In any year; yes.

Mr. FORD. In reality, you are giving to the President, if Congress approves section 510, not only \$4,763 million, but \$5,063 million?

Secretary DILLON. Yes. In effect, it does give the President, in addition to the \$1,885 million for military assistance, assuming that it is appropriated, discretionary power if he determines it vital to the security of the United States to use ready stocks from the Department of Defense and defense services up to a total of \$400 million.

Mr. FORD. Section (b) gives him more authority than that because it gives him the right to make obligations to replenish those stocks?

Secretary DILLON. That is right.

#### AUTHORITY TO REPLENISH MILITARY STOCKS

Mr. FORD. The President not only has the right to draw on the stocks but the right to make obligations to replenish the stocks?

Secretary DILLON. That is a different question.

Mr. FORD. Right, and section (b) does give him that authority without any further approval by the Congress, as I read the paragraph. Is there any disagreement?

Secretary DILLON. No; I think you read it correctly.

Mr. PASSMAN. For a single year?

Mr. FORD. Each year.

Mr. PASSMAN. Then you multiply by 5 to get the total.

Secretary DILLON. If he thought he was going to use it every year. This is only for a very particular emergency.

Mr. PASSMAN. Technically, would you multiply it by 5 years to get the total?

Mr. FORD. There is no limitation on this. This is permanent law.

Mr. PASSMAN. Under the 5-year program.

Secretary DILLON. This is the military assistance program.

Mr. FORD. I say again, if there is no error in my recollection, we did handle the Formosan Straits problem in 1958 without this legislation, also the Lebanese problem, and some other similar problems, in the last 3 or 4 years.

Secretary DILLON. I think the reason for this, as I recall it, was that the military felt the military assistance provisions they were allowed were rather restrictive and tight. The \$400 million was supposed to take care of an emergency if it came up rather than having to ask for more funds for military assistance.

Mr. PASSMAN. Would the gentleman yield?

Mr. FORD. Yes.

## USE OF CONTINGENCY FUND

Mr. PASSMAN. Maybe it was 2 years ago, the committee and the Congress reduced the amount for the defense support economic aid projects. Those in the executive branch who were in charge of allocating the funds allocated money out of the President's contingency fund into defense support, to offset the reductions made by the Congress, on the same day that the regular appropriation was received.

Do you recall that instance?

Secretary DILLON. I recall your describing it to me.

Mr. PASSMAN. How about having a look at the record along the way?

Secretary DILLON. This occurred before I was ever in Washington but I know of it.

Mr. PASSMAN. No. This occurred only 2 years ago.

Secretary DILLON. What?

Mr. PASSMAN. I am talking about something recent.

If you get the requested legislation, and if the Executive should decide that the Congress had cut too deeply, could you not transfer out of this account, and say it is vital that you allocate the funds, and offset reductions made by the Congress?

Secretary DILLON. If it should prove vital to our national security, the President could do that.

Mr. PASSMAN. Is not the entire foreign aid program vital, according to the Executive presentation?

Secretary DILLON. That is correct.

Mr. PASSMAN. How vital would it have to be?

Secretary DILLON. That is for the President to determine.

Mr. PASSMAN. Please check on the incident I mentioned.

Secretary DILLON. I remember that instance now.

Mr. PASSMAN. The committee now stands adjourned.

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TUESDAY, JULY 25, 1961.

Mr. PASSMAN. The subcommittee will come to order.

Mr. Secretary, I respect the very high position that you hold, and certainly your great ability in the fields of finance and foreign affairs is recognized throughout the world. I certainly want to make it clear that there is never anything personal intended about my observations in this committee.

However, on account of a somewhat restless evening, I am prompted to comment at this time that along life's journey I was taught that with privileges come responsibilities. Therefore, by nature and by practice, I usually drive to the ultimate in endeavoring to establish the facts in any matter in which I am a participant. To my way of thinking, several facts were established for the record yesterday which will be shocking and disappointing to those who subscribe to the importance of the three branches of our Government—the legislative, the judicial, and the executive.

On yesterday we established one matter which will doubtless cause members of this committee and the Congress and many American citizens to ponder and wonder what the future may hold for our system of government. We established that by the proposal requested by the executive this Nation could be committed in the initial step in

a new program to the staggering sum of almost \$9 billion, for projects of which the Congress would have no knowledge whatsoever as to the nature and type until after the commitments had been made.

Speaking for myself, I say prayerfully, may God forbid that this should ever happen. In my considered judgment, it is a violation of the Constitution of the United States.

Mr. Ford, do you wish to resume your examination?

#### EXPERIENCE IN REPAYMENTS TO REDEVELOPMENT LOAN CORPORATION

Mr. Ford. Mr. Secretary, under the Development Loan Corporation, as I remember the submission, it was anticipated that 25 percent of the repayments would be made in U.S. dollars and the remainder in foreign currencies. Is that about right?

Secretary DILLON. I am afraid I do not recall the original prognostication when the Development Loan Fund first came up. I think for the first year it worked out about 20 percent, and since then it has been less. I do not know whether you are referring to 1957, the first year, or to later times. At some point that statement may have been made.

Mr. Ford. I think the record is clear that this was the estimate forecast.

Secretary DILLON. In 1957? If you say so.

Mr. Ford. I suggest whatever the facts are, let us have what the repayment experience is included in the record at this point, by fiscal years.

Secretary DILLON. Very well.

(The information requested follows:)

#### DEVELOPMENT LOAN FUND

*Dollar and local currency collections by fiscal year*

[Thousands of dollars]

	Repayments		Interest		Guarantee fees—dollars	Total		Total
	Dollars	Local currency	Dollars	Local currency		Dollars	Local currency	
Fiscal year 1958.....		75	196	590	29	225	665	890
Fiscal year 1959.....	320	7,350	1,963	5,179	67	2,350	12,529	14,879
Fiscal year 1960.....								
Fiscal year 1961, estimate.....	3,859	12,850	3,025	10,126	30	6,914	22,976	29,890
Total.....	4,179	20,275	5,184	15,895	126	9,489	36,170	45,659

<sup>1</sup> It should be noted that for the following years the following amounts of this figure were converted by the Treasury into dollars for the purposes of relending:

Fiscal year 1959.....	
Fiscal year 1960.....	\$828,000
Fiscal year 1961, estimate.....	4,087,000
Total.....	4,915,000

#### SCHEDULE OF REPAYMENTS UNDER NEW PROGRAM

Mr. Ford. As I understand this new proposal, it is anticipated that all repayments will be made in U.S. dollars.

Secretary DILLON. That is correct.

Mr. FORD. Of course, no repayment would be made for 10 years. Under the Development Loan, what is the repayment schedule?

Secretary DILLON. Usually—I think I am correct, subject to correction from the Managing Director of the Development Loan Fund—I think the procedure on loans to governments is to have some token repayment. By “token,” I mean very small for the first 2 or 3 or 4 years, and thereafter repayment begins on a regular basis and runs for whatever the length of the loan may be.

Mr. FORD. It might be wise at this point in the record to have a chart showing the provisions for repayment under existing development loans, both as to term, interest rate, and so forth, and alongside of it what is proposed under this new back-door financing method. Mr. Chairman, if we could have that material inserted, I think it might be helpful.

Mr. PASSMAN. I think such a chart should be inserted at this point in the record, Mr. Ford, and so request it.

Mr. FORD. I think it would be helpful if we had this information laid out comparing one against the other.

Secretary DILLON. I would like to say one thing. I do not think it is accurate to tie this new proposal for development lending to a particular form of financing of the funds for it. I think that no matter how the funds become available, it will be the idea to do the financing this way. It is not just because it is Treasury financing.

Mr. GARY. What is the plan for repayment?

Secretary DILLON. It is the same plan that has been adopted by the International Development Association, Mr. Gary, where they have a small service charge. In their case it is three-fourths of 1 percent. I think it presumably would be the same here.

In addition, there is no repayment for the first 10 years. The next 10 years it is 1 percent a year, making a total of 10 percent repaid at the end of 20 years. Thereafter, it is 3 percent a year for the next 30 years, which completes repayment at 50 years. These are maximum terms. Countries which are in a more favorable position would have shorter repayment terms, maybe down to 30 years or 25 years.

Mr. GARY. One percent a year for 10 years, and then 3 percent for the balance of 30 years?

Secretary DILLON. Nothing for the first 10, 1 percent for the next 10, and then 3 percent for the next 30.

Mr. PASSMAN. Which would mean they would pay 10 percent of the principal amount during the first 20 years.

Secretary DILLON. Right.

(The information requested follows:)

*Comparison of dollar lending terms*

Terms	Development Loan Fund	Development lending by the AID (proposed)
Currency of repayment.	Currency of borrower, or dollars (usually the former). Obligation is denominated in dollars in either case to protect against depreciation of foreign currencies.	Dollars only.
Interest rates.....	For economic overhead: 3½ percent..... For private enterprises: 5¾ percent <sup>1</sup> ..... Intermediate credit institutions: depending on relending rate (generally a 2 to 3 percent "spread").	Little or no interest. <sup>2</sup>
Maturities.....	Average of 15 years.	Up to 50 years. <sup>2</sup>
Grace periods.....	For governments, none, although token repayments in early years may be authorized. For private enterprises a grace period may be authorized during the period of construction.	Up to 10 years; possibly staggered repayments thereafter, as with IDA loans.
Service charge.....	None.....	Possibly a small service charge similar to ¾ of 1 percent charged by IDA.

<sup>1</sup> Current rate (calculated by formula and similar to Export-Import Bank rate).

<sup>2</sup> In the case of private and autonomous, revenue-producing government enterprises, it will be necessary to institute a two-step arrangement in which these entities will repay in local currency on terms comparable to those of Export-Import Bank and in which such payment is converted into dollar repayment on the terms set for the nation as a whole.

REQUIREMENT FOR REPAYMENT OF DEVELOPMENT LOANS IN U.S. DOLLARS

Mr. FORD. It seems to me that in the testimony I have heard and the propaganda I have read in behalf of back-door financing, one of the crutches which is used to justify this new method of financing is the proposal to make the loan repayments in U.S. dollars. Could we not require the repayment of funds in U.S. dollars under Development Loan?

Secretary DILLON. Yes. That is a different way of putting what I was trying to state, that I do not think this new method of repayment ties the financing to the Treasury. No matter how the funds become available for development lending, the AID agency will do its financing that way.

Mr. FORD. In other words, if we wanted to make whatever money would be made available by the Congress for this loan program, we still could anticipate that repayment would be made in U.S. dollars?

Secretary DILLON. I think that is the intention, yes.

Mr. FORD. In other words, it is not a crutch for this program any more than it would be for any other program.

Secretary DILLON. Right, no more than it would be for any other.

ANNUAL REVIEW AND REVISION OF PROGRAM BY CONGRESS

Mr. FORD. In one of the public policy statements put out by the Citizens Committee for International Development, dated July 10, 1961, they say on page 2 of their material, and I quote:

This can be achieved—  
speaking of back-door financing—  
without sacrificing the safeguard of the annual review of the operations of the program by the Congress.

I suspect those words "annual review" were chosen fairly carefully. It does not say anything but annual review. It does not say annual review and revision. As I understand your interpretation, it means more than annual review. It means the Congress has the right to revise. Is that correct?

Secretary DILLON. Yes. The interpretation I have given the committee is the interpretation the administration places on its suggestion. I have no idea why the gentlemen who prepared that release used those particular words.

Mr. FORD. There is no doubt in your mind that simultaneous with review there is the right of the Congress, if this method goes through, to revise the program?

Secretary DILLON. To revise or limit or do whatever they want.

CIRCUMSTANCES JUSTIFYING MODIFICATIONS OR LIMITATIONS OF PROGRAM  
BY CONGRESS

Mr. FORD. In your own statement, Mr. Secretary, on pages 14 and 15, you say:

Of course, it is presumed that in accordance with legislative practice under the Government Corporations Control Act, modifications or limitations would only be imposed in special or unusual circumstances.

Could you give us any enlightenment on what you mean by special or unusual circumstances?

Secretary DILLON. I think that would be difficult to spell out in any limiting fashion, because it is hard to imagine ahead of time all the circumstances that might be special or unusual. The other day, I think two or three of them were mentioned as possibilities. One was the possibility, which I do not foresee, as I made clear, that we might encounter a depression of the type we had in the thirties and we would not be able to afford such a program. Another one would be war, or something of that nature, so we could not afford to carry out our programs. Another one might be if the country concerned left the free world and the whole situation changed completely. Those are some rather obvious examples. I think there probably are others. It would be a situation where there was a clear-cut enough reason so that the Congress would feel perfectly justified in reversing a decision, although not a final decision, which it had made and published to the world at an earlier date.

Mr. FORD. If it should fall within that third category, a country which left the free world, that would be a situation similar to that of Cuba going from what it was to what it is.

Secretary DILLON. Yes. That is the type of thing I had in mind.

Mr. FORD. How far would you go in that? We are helping some countries today which are neutralists. How far do they have to go outside of the orbit of the non-Communist world in order for the Congress to justify taking such action?

Secretary DILLON. I think that would be for the Congress to decide.

Mr. FORD. There is no reason that we could not act in this area if those circumstances prevailed?

Secretary DILLON. None whatsoever.

Mr. FORD. The three instances you have mentioned do seem to be in the category of special or unusual circumstances. If Congress

felt that the program was being administered badly—I do not mean just corruptly, but inefficiently, uneconomically—would that be justification for some limiting action by the Congress?

Secretary DILLON. As I say, it is very hard for me to foresee just what circumstances would be considered justification, but it might well be that you could conceive of the administration being so bad that the Congress would feel it had to take some action. I would certainly hope that would not be the case.

Mr. FORD. I would hope it would not be the case, either, but certainly inefficient and uneconomical and poorly managed administration, in my judgment, would prompt Congress to take action, and it would seem to me that it would certainly be within our prerogative.

Secretary DILLON. Very much so.

#### ITEMS INCLUDED IN TOTAL PROGRAM

Mr. FORD. I would like to have, if I could, a list of the programs which are included in the \$4,763 million. We know \$900 million of that is in the back-door-financing program. What other items are there?

Secretary DILLON. There is \$287 million of funds that would be available for development lending, which would be the repayments on past economic assistance loans to developed countries.

Mr. FORD. Most of those would be repayments of DLF loans?

Secretary DILLON. No. I think the biggest item there is the British loan. If you would be interested, there is a table we put in the Senate hearings showing in detail what those repayments would be. That appears beginning at page 116.

Mr. FORD. It might be well to duplicate that if we do not already have those figures.

Secretary DILLON. That table continues for several pages following page 116 of those hearings.

Mr. GARY. Added to all of this would be any collections made by the DLF on previous loans which may come in during the year, would it not?

Secretary DILLON. That is part of the \$287 million.

#### REPAYMENTS AND COLLECTIONS AVAILABLE FOR RELENDING

Mr. GARY. Will you give us a complete statement of what the collections will be during the present fiscal year upon repayments to the Development Loan Fund which would be available for relending under the program?

Secretary DILLON. I would be glad to do that. As of the date this information was furnished, it was estimated to be \$7.3 million.

Mr. ALEXANDER. That is in addition to the \$4.763 billion?

Secretary DILLON. No; that is part of it. Part of the \$287 million would be the repayments in this fiscal year. We can put a table similar to this in the record.

Mr. GARY. I wish you would.

(The information requested follows:)

*U.S. Government foreign loans and credits, postwar period July 1, 1945-Dec. 31, 1960*

[In billions of dollars]

Outstanding on June 30, 1945.....	0.8
Activity: July 1, 1945-Dec. 31, 1960:	
Utilized.....	19.3
Repaid <sup>1</sup> .....	-7.0
Outstanding on Dec. 31, 1960 <sup>2</sup> .....	13.1
Repayable in dollars <sup>3</sup> .....	11.0
Repayable in local currency <sup>4</sup> .....	2.1

<sup>1</sup> Principal only. Includes \$18,000,000 written off as uncollectible. Interest and commissions collected during this period amounted to over \$2,900,000,000.

<sup>2</sup> Of which \$131,000,000 was due and unpaid for 90 days or more, in addition to amounts written off as uncollectible. Part of this amount has since been repaid in 1961. In addition \$42,000,000 of interest was reported by agencies as due and unpaid as of Dec. 31, 1960.

<sup>3</sup> Partially estimated. Includes dollar and local currency loans repayable in dollars.

<sup>4</sup> Partially estimated. Includes dollar and local currency loans repayable in local currencies, indebtedness for which the terms of settlement have not yet been determined, loans repayable in strategic materials, and lend-lease credits repayable in silver.

*U.S. loans outstanding, and estimated dollar repayments (including interest collections), fiscal years 1961-66*

[In millions of dollars]

	Loans outstanding Dec. 31, 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965	Fiscal year 1966
Mutual security program.....	1,764.2	70.8	74.3	76.6	78.1	82.7	88.5
Development Loan Fund.....	91.3	3.8	7.3	15.2	29.1	34.9	34.5
Surplus properties, war assets and lend-lease.....	1,594.9	79.9	76.9	75.7	74.8	74.2	75.3
German settlement loan.....	787.4	610.8	5.0	5.0	5.0	5.0	5.0
British loan.....	3,314.5	123.1	123.1	123.1	123.1	123.1	123.1
Total.....	7,552.3	888.4	286.6	295.6	310.1	319.9	326.4

Prepared: June 8, 1961.

## SCHEDULE OF LOAN REPAYMENTS AND INTEREST COLLECTIONS

## Europe

[In millions of dollars]

Country and fiscal year	Mutual security program	Development loan fund	Surplus properties, war assets, and lend-lease	British and German loans	Total
Total, loans outstanding Dec. 31, 1960.....	1,338.5	3.0	1,422.0	4,101.9	6,865.4
Schedule of repayments:					
1961.....	65.2	.3	73.9	733.9	873.3
1962.....	66.4	.5	71.0	128.1	266.0
1963.....	67.1	.7	70.0	128.1	265.9
1964.....	68.6	1.4	69.4	128.1	267.5
1965.....	70.7	1.8	68.9	128.1	269.5
1966.....	73.4	1.8	70.0	128.1	273.3
Austria, loans outstanding Dec. 31, 1960.....			1.0		1.0
Schedule of repayments:					
1961.....			.2		.2
1962.....			.2		.2
1963.....			.2		.2
1964.....			.1		.1
1965.....			.1		.1
1966.....			.1		.1
Belgium, loans outstanding Dec. 31, 1960.....	60.7		8.1		68.8
Schedule of repayments:					
1961.....	3.3		.6		3.9
1962.....	3.7		.6		4.3
1963.....	3.6		.6		4.2
1964.....	3.6		.6		4.2
1965.....	3.6		.6		4.2
1966.....	4.0		.5		4.5
Czechoslovakia, loans outstanding Dec. 31, 1960.....			4.9		4.9
Denmark, loans outstanding Dec. 31, 1960.....	31.8				31.8
Schedule of repayments:					
1961.....	1.2				1.2
1962.....	1.5				1.5
1963.....	1.1				1.1
1964.....	1.1				1.1
1965.....	1.3				1.3
1966.....	1.4				1.4
Finland, loans outstanding Dec. 31, 1960.....			10.8		10.8
Schedule of repayments:					
1961.....			1.4		1.4
1962.....			1.3		1.3
1963.....			.8		.8
1964.....			.8		.8
1965.....			.8		.8
1966.....			.8		.8
France, loans outstanding Dec. 31, 1960.....	214.8		536.7		751.5
Schedule of repayments:					
1961.....	9.2		31.6		40.8
1962.....	8.7		31.6		40.3
1963.....	8.6		31.5		40.1
1964.....	8.5		31.2		39.7
1965.....	8.4		31.2		39.6
1966.....	9.9		31.2		41.1
Germany, loans outstanding Dec. 31, 1960.....	16.5		17.5	787.4	821.4
Schedule of repayments:					
1961.....	1.0		1.2	610.8	613.0
1962.....	1.0		1.2	5.0	7.2
1963.....	1.0		1.2	5.0	7.2
1964.....	1.0		1.2	5.0	7.2
1965.....	1.0		1.1	5.0	7.1
1966.....	1.0		1.1	5.0	7.1
Hungary, loans outstanding Dec. 31, 1960.....			10.2		10.2
Schedule of repayments:					
1961.....			.1		.1
1962.....			.1		.1
1963.....			.1		.1
1964.....			.1		.1
1965.....			.1		.1
1966.....			.1		.1
Iceland, loans outstanding Dec. 31, 1960.....	14.6				14.6
Schedule of repayments:					
1961.....	1.3				1.3
1962.....	1.1				1.1
1963.....	1.1				1.1
1964.....	1.1				1.1
1965.....	1.1				1.1
1966.....	1.1				1.1

See footnote at end of table.

## SCHEDULE OF LOAN REPAYMENTS AND INTEREST COLLECTIONS

## Europe—Continued

[In millions of dollars]

Country and fiscal year	Mutual security program	Development loan fund	Surplus properties, war assets, and lend-lease	British and German loans	Total
Ireland, loans outstanding Dec. 31, 1960	123.2				123.2
Schedule of repayments:					
1961	4.6				4.6
1962	5.0				5.0
1963	5.3				5.3
1964	5.3				5.3
1965	5.6				5.6
1966	5.9				5.9
Italy, loans outstanding Dec. 31, 1960	88.5		51.8		140.3
Schedule of repayments:					
1961	4.1		5.2		9.3
1962	4.1		5.1		9.2
1963	4.1		5.0		9.1
1964	4.9		5.0		9.9
1965	5.8		4.9		10.7
1966	5.7		4.8		10.5
Netherlands, loans outstanding Dec. 31, 1960	139.8	3.0	20.5		163.3
Schedule of repayments:					
1961	6.0	.1	5.0		11.1
1962	6.0	.1	1.5		7.6
1963	5.9	.1	1.5		7.5
1964	5.8	.2	1.4		7.4
1965	5.8	.2	1.4		7.4
1966	5.7	.2	1.3		7.2
Norway, loans outstanding Dec. 31, 1960	31.8		1.5		33.3
Schedule of repayments:					
1961	2.3		(?)		2.3
1962	2.3		(?)		2.3
1963	2.3		(?)		2.3
1964	2.2				2.2
1965	2.1				2.1
1966	2.0				2.0
Poland, loans outstanding Dec. 31, 1960	56.9		20.2		77.1
Schedule of repayments:					
1961	3.7		1.8		5.5
1962	3.7		1.9		5.6
1963	4.1		1.8		5.9
1964	4.5		1.8		6.3
1965	4.7		1.7		6.4
1966	4.71		1.7		6.4
Portugal, loans outstanding Dec. 31, 1960	31.3				31.3
Schedule of repayments:					
1961	1.8				1.8
1962	1.8				1.8
1963	1.8				1.8
1964	1.8				1.8
1965	1.8				1.8
1966	1.8				1.8
Spain, loans outstanding Dec. 31, 1960	48.9				48.9
Schedule of repayments:					
1961	4.6				4.6
1962	4.5				4.5
1963	4.4				4.4
1964	4.3				4.3
1965	4.2				4.2
1966	4.2				4.2
Sweden, loans outstanding Dec. 31, 1960	16.8				16.8
Schedule of repayments:					
1961	1.2				1.2
1962	1.2				1.2
1963	1.1				1.1
1964	1.1				1.1
1965	1.1				1.1
1966	1.1				1.1
United Kingdom, loans outstanding Dec. 31, 1960	372.1		523.7	3,314.5	4,210.3
Schedule of repayments:					
1961	14.1		17.8	123.1	155.0
1962	15.0		17.8	123.1	155.9
1963	15.8		17.8	123.1	156.7
1964	16.6		17.8	123.1	157.5
1965	17.3		17.8	123.1	158.2
1966	18.1		17.8	123.1	159.0

See footnote at end of table.

## SCHEDULE OF LOAN REPAYMENTS AND INTEREST COLLECTIONS

## Europe—Continued

[In millions of dollars]

Country and fiscal year	Mutual security program	Development loan fund	Surplus properties, war assets, and lend-lease	British and German loans	Total
U.S.S.R., loans outstanding Dec. 31, 1960.....			215.1		215.1
Schedule of repayments:					
1961.....			49.0		9.0
1962.....			49.7		9.7
1963.....			49.5		9.5
1964.....			49.4		9.4
1965.....			49.2		9.2
1966.....			410.6		10.6
Yugoslavia, loans outstanding Dec. 31, 1960.....					
Schedule of repayments:					
1961.....		0.2			.2
1962.....		.4			.4
1963.....		.6			.6
1964.....		1.2			1.2
1965.....		1.6			1.6
1966.....		1.6			1.6
European Coal and Steel Community, loans outstanding Dec. 31, 1960.....	90.8				90.8
Schedule of repayments:					
1961.....	6.8				6.8
1962.....	6.8				6.8
1963.....	6.9				6.9
1964.....	6.8				6.8
1965.....	6.9				6.9
1966.....	6.8				6.8

<sup>1</sup> An amount of \$2,500,000 is in arrears and no scheduled repayments are included in this report.

<sup>2</sup> Includes \$587,000,000 prepayment. Amounts shown for fiscal year 1962 to fiscal year 1966 represent interest collections on balance.

<sup>3</sup> Less than \$50,000.

<sup>4</sup> About  $\frac{2}{3}$  of each installment is being collected. An amount of \$34,000,000 is, at present, in arrears and accumulating. Figures in this report represent only  $\frac{1}{3}$  of each installment.

## Africa

[In millions of dollars]

Country and fiscal year	Mutual security program	Development Loan Fund	Surplus properties, war assets, and lend-lease	Total
Total, loans outstanding Dec. 31, 1960.....	31.6	8.6	19.0	59.2
Schedule of repayments:				
1961.....	1.3	.3		1.6
1962.....	2.1	.7		2.8
1963.....	2.1	1.1		3.2
1964.....	2.1	2.7		4.8
1965.....	2.1	2.8		4.9
1966.....	2.1	2.8		4.9
Liberia, loans outstanding Dec. 31, 1960.....		.2	<sup>1</sup> 19.0	19.2
Schedule of repayments:				
1961.....		.1		.1
1962.....		.1		.1
1963.....		.1		.1
1964.....		.1		.1
1965.....		.1		.1
1966.....		(?)		(?)
Libya, loans outstanding Dec. 31, 1960.....	1.6			1.6
Schedule of repayments:				
1961.....	.2			.2
1962.....	.3			.3
1963.....	.3			.3
1964.....	.3			.3
1965.....	.3			.3
1966.....	.3			.3

See footnote at end of table.

## SCHEDULE OF LOAN REPAYMENTS AND INTEREST COLLECTIONS

## Africa—Continued

[In millions of dollars]

Country and fiscal year	Mutual security program	Development Loan Fund	Surplus properties, war assets, and lend-lease	Total
Morocco, loans outstanding Dec. 31, 1960.....	30.0			30.0
Schedule of repayments:				
1961.....	1.1			1.1
1962.....	1.8			1.8
1963.....	1.8			1.8
1964.....	1.8			1.8
1965.....	1.8			1.8
1966.....	1.8			1.8
Nigeria, loans outstanding Dec. 31, 1960.....		.7		.7
Schedule of repayments:				
1961.....		(2)		(2)
1962.....		.1		.1
1963.....		.1		.1
1964.....		.2		.2
1965.....		.2		.2
1966.....		.3		.3
Sudan loans outstanding Dec. 31, 1960.....		5.1		5.1
Schedule of repayments:				
1961.....		.2		.2
1962.....		.3		.3
1963.....		.6		.6
1964.....		.8		.8
1965.....		1.0		1.0
1966.....		1.0		1.0
Tanganyika, loans outstanding Dec. 31, 1960.....				
Schedule of repayments:				
1961.....				
1962.....		(2)		(2)
1963.....		(2)		(2)
1964.....		.1		.1
1965.....		.1		.1
1966.....		.1		.1
Tunisia, loans outstanding Dec. 31, 1960.....		2.6		2.6
Schedule of repayments:				
1961.....		(2)		(2)
1962.....		.1		.1
1963.....		.1		.1
1964.....		.7		.7
1965.....		.6		.6
1966.....		.6		.6
Undistributed, loans outstanding Dec. 31, 1960.....				
Schedule of repayments:				
1961.....		.1		.1
1962.....		.2		.2
1963.....		.8		.8
1964.....		.8		.8
1965.....		.8		.8
1966.....		.8		.8

<sup>1</sup> An amount of \$19,000,000 is unscheduled. Payments are to be made from port receipts and in past years receipts were insufficient to cover loan payments after deducting certain expenses. It is doubtful that any sizable collection will be received during the next few years.

<sup>2</sup> Less than \$50,000.

## SCHEDULE OF LOAN REPAYMENTS AND INTEREST COLLECTIONS

## Far East

[In millions of dollars]

Country and fiscal year	Mutual security program	Development Loan Fund	Surplus properties, war assets, and lend-lease	Total
Total loans outstanding Dec. 31, 1960.....	12.5	3.6	96.0	112.1
Schedule of repayments:				
1961.....	1.3	.4	3.3	5.0
1962.....	1.2	1.7	3.3	6.2
1963.....	1.2	5.0	3.2	9.4
1964.....	1.2	6.7	3.0	10.9
1965.....	1.2	8.2	3.0	12.4
1966.....	1.1	8.1	3.0	12.2
Burma, loans outstanding Dec. 31, 1960.....			1.2	1.2
Schedule of repayments:				
1961.....			.2	.2
1962.....			.2	.2
1963.....			.2	.2
1964.....			.2	.2
1965.....			.2	.2
1966.....			.2	.2
China (Taiwan), loans outstanding Dec. 31, 1960.....		.1	51.1	51.2
Schedule of repayments:				
1961.....		(1)	(2)	(1)
1962.....		.1	(2)	.1
1963.....		.1	(2)	.1
1964.....		.3	(2)	.3
1965.....		.4	(2)	.4
1966.....		.4	(2)	.4
Indonesia, loans outstanding Dec. 31, 1960.....	12.5		43.4	55.9
Schedule of repayments:				
1961.....	1.3		3.0	4.3
1962.....	1.2		3.0	4.2
1963.....	1.2		2.9	4.1
1964.....	1.2		2.8	4.0
1965.....	1.2		2.8	4.0
1966.....	1.1		2.8	3.9
Malaya, loans outstanding Dec. 31, 1960.....		.8		.8
Schedule of repayments:				
1961.....		.2		.2
1962.....		.4		.4
1963.....		1.0		1.0
1964.....		1.6		1.6
1965.....		1.9		1.9
1966.....		1.9		1.9
Philippines, loans outstanding Dec. 31, 1960.....		2.3	.3	2.6
Schedule of repayments:				
1961.....		.2	.1	.3
1962.....		1.1	.1	1.2
1963.....		3.8	.1	3.9
1964.....		4.7		4.7
1965.....		5.8		5.8
1966.....		5.7		5.7
Thailand, loans outstanding Dec. 31, 1960.....		.4		.4
Schedule of repayments:				
1961.....				
1962.....		.1		.1
1963.....		.1		.1
1964.....		.1		.1
1965.....		.1		.1
1966.....		.1		.1

<sup>1</sup> Less than \$50,000.<sup>2</sup> At the present this loan is in arrears. Scheduled repayments have been eliminated from this table in the amount of approximately \$3,000,000 per year.

## SCHEDULE OF LOAN REPAYMENTS AND INTEREST COLLECTIONS

## Near East and south Asia

[In millions of dollars]

Country and fiscal year	Mutual security program	Development Loan Fund	Surplus properties, war assets, and lend-lease	Total
Total, loans outstanding, Dec. 31, 1960.....	360.1	54.4	51.0	465.5
Schedule of repayments:				
1961.....	2.7	1.7	2.6	7.0
1962.....	3.0	2.7	2.5	8.2
1963.....	4.5	5.8	2.4	12.7
1964.....	4.5	11.5	2.4	18.4
1965.....	4.5	15.0	2.3	21.8
1966.....	4.5	15.4	2.3	22.2
Afghanistan, loans outstanding Dec. 31, 1960.....	12.1			12.1
Schedule of repayments:				
1961.....	.1			.1
1962.....	.4			.4
1963.....	.4			.4
1964.....	.4			.4
1965.....	.4			.4
1966.....	.4			.4
Greece, loans outstanding Dec. 31, 1960.....			26.9	26.9
Schedule of repayments:				
1961.....			2.6	2.6
1962.....			2.5	2.5
1963.....			2.4	2.4
1964.....			2.4	2.4
1965.....			2.3	2.3
1966.....			2.3	2.3
India, loans outstanding Dec. 31, 1960.....	186.2			186.2
Schedule of repayments:				
1961.....	(1)			
1962.....	(1)			
1963.....	(1)			
1964.....	(1)			
1965.....	(1)			
1966.....	(1)			
Iran, loans outstanding Dec. 31, 1960.....	61.8	53.0	* 24.1	138.9
Schedule of repayments:				
1961.....	2.6	1.6		4.2
1962.....	2.6	2.6		5.2
1963.....	4.1	5.1		9.2
1964.....	4.1	8.5		12.6
1965.....	4.1	11.8		15.9
1966.....	4.1	11.6		15.7
Jordan, loans outstanding Dec. 31, 1960.....		.6		.6
Schedule of repayments:				
1961.....		(2)		(2)
1962.....		(2)		(2)
1963.....		.1		.1
1964.....		.2		.2
1965.....		.2		.2
1966.....		.2		.2
Pakistan, loans outstanding Dec. 31, 1960.....	15.0			15.0
Schedule of repayments:				
1961.....	(1)			
1962.....	(1)			
1963.....	(1)			
1964.....	(1)			
1965.....	(1)			
1966.....	(1)			
Turkey, loans outstanding Dec. 31, 1960.....	85.0			85.0
Schedule of repayments:				
1961.....	(1)			
1962.....	(1)			
1963.....	(1)	.3		.3
1964.....	(1)	2.1		2.1
1965.....	(1)	2.2		2.2
1966.....	(1)	2.7		2.7
United Arab Republic (Egypt and Syria), loans outstanding Dec. 31, 1960.....		.7		.7
Schedule of repayments:				
1961.....		(2)		(2)
1962.....		(2)		(2)
1963.....		(2)		(2)
1964.....		.1		.1
1965.....		.1		.1
1966.....		.1		.1

\* Deferred through fiscal year 1966.

\* This loan is in arrears.

\* Less than \$50,000.

## SCHEDULE OF LOAN REPAYMENTS AND INTEREST COLLECTIONS

## Latin America

[In millions of dollars]

Country and fiscal year	Mutual security program	Development Loan Fund	Surplus properties, war assets, and lend-lease	Total
Total, loans outstanding Dec. 31, 1960	21.5	21.7	6.9	50.1
Schedule of repayments:				
1961	.3	1.1	.1	1.5
1962	1.2	1.7	.1	3.0
1963	1.5	2.6	.1	4.2
1964	1.5	6.8		8.3
1965	4.0	7.1		11.1
1966	7.3	6.4		13.7
Argentina, loans outstanding Dec. 31, 1960		17.0		17.0
Schedule of repayments:				
1961		.7		.7
1962		.9		.9
1963		1.5		1.5
1964		5.4		5.4
1965		5.4		5.4
1966		5.4		5.4
Bolivia, loans outstanding Dec. 31, 1960				
Schedule of repayments:				
1961				.7
1962	.7			.8
1963	.8			.8
1964	.8			1.9
1965	1.9			1.8
1966	1.8			
Chile, loans outstanding Dec. 31, 1960	10.0			10.0
Schedule of repayments:				
1961				
1962				
1963				
1964				
1965	.7			.7
1966	2.2			2.2
Costa Rica, loans outstanding Dec. 31, 1960		.3		.3
Schedule of repayments:				
1961		(1)		(1)
1962		(1)		(1)
1963		(1)		(1)
1964		(1)		(1)
1965		(1)		(1)
1966		(1)		(1)
Ecuador, loans outstanding, Dec. 31, 1960	2.3			2.3
Schedule of repayments:				
1961	.2			.2
1962	.2			.2
1963	.2			.2
1964	.2			.2
1965	.2			.2
1966	.2			.2
Guatemala, loans outstanding Dec. 31, 1960	3.2	.4		3.6
Schedule of repayments:				
1961	.1	(1)		.1
1962	.1	.1		.2
1963	.1	.2		.3
1964	.1	.2		.3
1965	.4	.4		.8
1966	.4	.3		.7
Haiti, loans outstanding Dec. 31, 1960		.6	2.1	.7
Schedule of repayments:				
1961		(1)		(1)
1962				
1963				
1964				
1965				
1966				
Honduras, loans outstanding Dec. 31, 1960				
Schedule of repayments:				
1961				.1
1962	.1			.1
1963	.1			.1
1964	.1			.1
1965	.1			.1
1966	2.1			2.1

See footnote at end of table.

## SCHEDULE OF LOAN REPAYMENTS AND INTEREST COLLECTIONS

## Latin America—Continued

[In millions of dollars]

Country and fiscal year	Mutual security program	Development Loan Fund	Surplus properties, war assets, and lend-lease	Total
Nicaragua, loans outstanding Dec. 31, 1960.....		0.2		0.2
Schedule of repayments:				
1961.....		( <sup>1</sup> )		( <sup>1</sup> )
1962.....		.1		.1
1963.....		( <sup>1</sup> )		( <sup>1</sup> )
1964.....		.1		.1
1965.....		.1		.1
1966.....		.1		.1
Panama, loans outstanding Dec. 31, 1960.....	6.0			6.0
Schedule of repayments:				
1962.....	.1	( <sup>1</sup> )		.1
1963.....	.3	.1		.4
1964.....	.3	.2		.5
1965.....	.7	.3		1.0
1966.....	.6	.3		.9
Paraguay, loans outstanding Dec. 31, 1960.....		3.2		3.2
Schedule of repayments:				
1961.....		.4		.4
1962.....		.6		.6
1963.....		.7		.7
1964.....		.7		.7
1965.....		.6		.6
1966.....				
Peru, loans outstanding Dec. 31, 1960.....				
Schedule of repayments:				
1961.....				
1962.....				
1963.....		( <sup>1</sup> )		( <sup>1</sup> )
1964.....		.1		.1
1965.....		.1		.1
1966.....		.1		.1
Venezuela, loans outstanding Dec. 31, 1960.....				
Schedule of repayments:				
1962.....		( <sup>1</sup> )		( <sup>1</sup> )
1963.....		.1		.1
1964.....		.1		.1
1965.....		.2		.2
1966.....		.2		.2
Undistributed, loans outstanding Dec. 31, 1960.....			\$ 6.8	6.8
Schedule of repayments:				
1961.....			.1	.1
1962.....			.1	.1
1963.....			.1	.1
1964.....				
1965.....				
1966.....				

<sup>1</sup> Less than \$50,000.<sup>2</sup> This amount is in arrears.<sup>3</sup> This amount is partially offset by a counterclaim against the United States.Schedule of loan repayments and interest collections, nonregional <sup>1</sup>

[In millions of dollars]

Country and fiscal year	Mutual security program	Development Loan Fund	Surplus properties, war assets, and lend-lease	Total
Loans outstanding Dec. 31, 1960.....				
Schedule of repayments:				
1961.....	( <sup>2</sup> )			( <sup>2</sup> )
1962.....	0.2			0.2
1963.....	.2			.2
1964.....	.2			.2
1965.....	.2			.2
1966.....	.1			.1

<sup>1</sup> Project Hope.<sup>2</sup> Less than \$50,000.

## PROGRAMS IN 1962 REQUEST

Mr. FORD. We have two items, the \$900 million for new loan programs and \$287 million in repayments. What are the others?

Secretary DILLON. The other is \$1,885 million for military assistance and \$1,690.5 million for appropriations for economic assistance, which is broken down in various ways with which I am not familiar, but we can provide a table showing that.

Mr. FORD. I think it would be well to put this in table form so we have it before us.

(The information requested follows:)

## ECONOMIC ASSISTANCE

*Proposed program and appropriation request for fiscal year 1962*

[In millions of dollars]

Function	Program	Proposed financing	
		New obligational authority	Unobligated balances
Development loans.....	1,187.00	1,900.00	287.00
Development grants.....	389.00	380.00	9.00
Continuing costs.....	259.00		
Illustrative new projects.....	125.00		
Excess property pool.....	5.00		
Research.....	20.00	20.00	
Investment surveys.....	5.00	5.00	
Supporting assistance.....	610.10	581.00	29.10
Voluntary contributions to multilateral organizations.....	158.35	153.50	4.85
Contingency fund.....	500.00	500.00	
Administrative expenses.....	51.55	51.00	.55
Total.....	2,921.00	2,590.50	330.50
Development loans.....	(1,187.00)	(900.00)	(287.00)
Nondevelopment lending program.....	(1,734.00)	1,690.50	(43.50)

<sup>1</sup> Borrowing authority. An additional \$1.6 billion in borrowing authority is requested for each of the 4 succeeding fiscal years.

<sup>2</sup> Loan repayments.

<sup>3</sup> Appropriation request. Excludes following programs: Peace Corps, \$40; ICEM, \$6 (excludes \$1 unobligated balance); escapee program, \$3.30; UNHCR, \$1.20; OECD, \$1.20; administrative expense (State), \$7.80; Total, \$59.50.

## MILITARY ASSISTANCE

## Annual program comparison by category

[In millions of dollars]

Fiscal year 1962  
proposed

I. By area—Total	\$1,885.0
Europe	414.7
Africa	48.2
Near East and South Asia	453.5
Far East	870.3
Latin America	68.4
Nonregional	29.9
II. By category—Total	1,885.0
Essentially fixed charges	376.3
Infrastructure	76.1
International military headquarters and agencies	11.3
Training	122.5
Supply operations	141.4
Administrative expenses	25.0
Force maintenance	740.7
Spare parts	340.6
Attrition, training ammunition, repair and rehabilitation of equipment	292.5
Other consumables	107.6
Force improvement	768.0
Aircraft	258.1
Ships	49.4
Tanks, vehicles, and weapons	67.7
Missiles	135.6
Electronics and communication	18.4
Special programs	94.4
Construction	59.6
All other	84.8
III. NATO only—Total	719.2
Europe (NATO country programs)	222.9
Near East (Greece and Turkey only)	335.8
NATO infrastructure	76.1
International military headquarters and agencies	11.3
Weapons production program	56.1
Mutual weapons development program	10.0
Other NATO area equipment and services	7.1

## ITEMS SUBJECT TO REGULAR APPROPRIATION PROCESS

Mr. FORD. Now would you go down the list which you have given me and tell me which items in this new authorization bill, including back-door financing, would still have to come before this subcommittee for appropriations. The first item of \$900 million would not.

Secretary DILLON. The first item would have to come before you in the way we described yesterday, and I think also the \$287-million repayments would have to come before you in the same fashion. But for actual appropriations it would only be \$1,885 million of military assistance and the \$1,690.5 million of economic assistance.

Mr. FORD. In the ordinary sense, \$3,575 million would still come before this subcommittee in the regular appropriation process. That is the combination of \$1,885 million and the \$1,690 million.

Secretary DILLON. Yes. I assume your figures are correct.

Mr. FORD. Be careful of my mathematics.

Secretary DILLON. \$3,575 million.

Mr. FORD. \$3,575 million.

Secretary DILLON. That is correct.

Mr. FORD. And the other \$900 million would come before us as a submission under the Government Corporations Control Act; is that correct?

Secretary DILLON. The other \$900 million plus the other \$287 million.

Mr. FORD. In those last two categories, \$900 million and \$287 million, we would have an opportunity to review, but in a little different sense under the phraseology you used:

Of course, it is presumed that in accordance with legislative practices under the Government Corporations Control Act, modifications or limitations would only be imposed in special or unusual circumstances.

Secretary DILLON. That is what we would assume, but of course, the legal right of the committee is unlimited. It could do what it wants.

Mr. FORD. That would be your guideline or the administration's guideline.

Secretary DILLON. It has been the guideline for the Congress so far in carrying out the Government Corporation Control Act.

Mr. FORD. I understand there are some other items included in this. What about the Peace Corps request for \$40 million? That would come before this subcommittee, would it not?

Secretary DILLON. I have no idea. I presume it might. It is a separate appropriation. Whether it would come here or before the State Department committee, I do not know.

Mr. RHODES. I asked that question of Mr. Shriver the other day, and apparently the Peace Corps appropriation may go before the Department of State Subcommittee or it may come here. It has not been decided yet.

Mr. GARY. I talked to Mr. Shriver about it when he came to see me this morning. I asked him what would be done about it, and he said he did not have any idea, and he had no preference. He thought it would come either to this committee or the State Department Subcommittee, or, coming late as it does, it might go the Supplemental Subcommittee.

Mr. FORD. According to the justifications submitted by the Department, it shows that figure of \$3,575 million as amounts which would come before this subcommittee for appropriation, plus the Peace Corps proposal of \$40 million; ICEM, \$6 million plus.

This \$1 million is included with the ICEM \$6 million; the escapee program of \$3.3 million; the next is United Nations High Commissioner, \$1,200,000; the Office of OCED, whatever that is, \$1,200,000.

Secretary DILLON. OECD is the Organization for Economic Cooperation and Development.

Mr. FORD. Administrative expenses, State Department, \$7.8 million, or a total of \$59,500,000. So if you add that, you come to \$3,634,500,000.

Secretary DILLON. Yes.

Mr. FORD. Are there any unobligated balances which you are familiar with that would likewise come before this subcommittee?

Secretary DILLON. No. I am not familiar with them, but they usually do ask for unobligated balances, and I think there was a figure in the presentation somewhere—I do not know just where it is—of about \$43 million.

Mr. FORD. I see it in the justification.

Secretary DILLON. Nondevelopment lending program, \$43,500,000.

Mr. FORD. That is all, Mr. Chairman.

#### FUTURE REDUCTION IN FUNDS SUBJECT TO APPROPRIATIONS PROCESS

Mr. PASSMAN. In connection with the totals just established with respect to the amount which would still come to this subcommittee through the appropriations process, did you not state yesterday that in subsequent years, under the proposal, if approved by the Congress, there would be less and less requested in appropriations for economic aid as such, and it would be in the other categories?

Secretary DILLON. I think the intention or hope of the administration is that it will be able to make some progress toward carrying out the long-time wish of this committee and the Congress to reduce the amount of funds available for grant assistance.

Mr. PASSMAN. I appreciate your reply, Mr. Secretary, but did you not indicate that in subsequent years the request would be less and less because there would be more and more of the other category of spending?

Secretary DILLON. I do not know whether that is a situation of cause and effect or not. The proposal is that grant assistance will gradually diminish, although they say it cannot end. Of course, the proposal is that development lending will increase.

Mr. PASSMAN. So, it could be that under the new proposal, the major portion of the financing would switch over to the back-door approach, and the economic request for appropriation would be less.

Secretary DILLON. I think the economic request would be less.

Mr. PASSMAN. Then, it would be up to the members themselves to interpret this other thing as to whether it is a grant, loan, I O U, or project financing, or whatever they might care to call it.

Secretary DILLON. That is right.

#### MULTIYEAR APPROPRIATIONS VERSUS BORROWING AUTHORITY

Mr. RHODES. Mr. Secretary, one of the reasons given for wanting to change the ground rules for the operation of mutual security is that it is impossible, so it is said, to carry on a long-term development program in any one country. On page 45 of the book I quoted from yesterday, "Act for International Development, a Summary Presentation, June 1961," under the general heading "Annual Congressional

Hearings Would Continue," these words are used referring to whether or not we shall have appropriations or borrowing authority:

The same purpose could be accomplished by the technique of a multiyear appropriation. However, the technique of borrowing authority is better adapted to an income-producing lending operation which will be used to finance increases in productivity, and in fact has been the technique most commonly used in the past for financing revolving loan funds.

If the same purpose could be accomplished, then it is just a matter of degree as to which would be the better, is it not? It could be done on a multiyear appropriation.

Secretary DILLON. A multiyear appropriation, I think, would do the same thing.

Mr. RHODES. Exactly the same thing?

Secretary DILLON. If the same amounts of funds were made available, there would be no difference.

Mr. RHODES. Would it be better if we were to appropriate multiyear funds by country? As you know, in this program we have never appropriated by country. Assuming that we had a program which everyone agreed upon for Pakistan, as an example, and the money were appropriated on a multiyear basis, would this accomplish the same result as contemplated by changing the signals?

Secretary DILLON. I think that might have some effects which I do not feel competent to comment on, but which I think the Department of State might want to comment on. As far as the fiscal implications are concerned, any way the money is made available, if it is available, is just as good. There is no difference.

Mr. RHODES. Yesterday you said in response to a question from the chairman that the main item of accomplishment desired in the scheme of things is to have continuity in financing.

Secretary DILLON. Yes; continuity in financial planning.

Mr. RHODES. With the new rules in the Development Loan Fund, will the "Buy American" policy continue?

Secretary DILLON. That is not provided specifically in the legislation. It is not presently in the legislation of the Development Loan Fund, but it is the administration's intention to continue the regulation presently in force.

#### PURPOSE OF DOLLAR REPAYMENTS OF LOANS

Mr. RHODES. Speaking of the Development Loan Fund and the manner in which it has operated, what has happened in the last year which has made it desirable to change from the basis of loans repayable in local currencies to loans repayable in dollars?

Secretary DILLON. We touched on that yesterday. I think the basic reason is that very substantial programs under Public Law 480 seem to be continuing, and there does not seem to be any sign that they will come to an end. They are very useful for many reasons. They have created in numerous countries, not all, but numerous countries, very substantial ownership of local currencies by the United States, far more than we could ever use or the foreign country could ever redeem. When we hold too much of the local currency of a country, it can become embarrassing and create difficulties.

It was felt that one source of these local currencies could well be cut off. Since the World Bank, or the other large operators in this field, had somewhat changed their position, as the chairman pointed out, and now felt that loans repayable in dollars with no interest would fit in perfectly well with their operations, it was felt that it was a practical and useful thing to shift to the dollar repayment basis. Under the terms proposed, it was felt that this would not be a burden in the recipient country.

Mr. RHODES. Actually, the main reason is the burdensome nature of the local currencies which we have been accumulating and the worry over the responsibilities they entail, which I share and I think you do, too.

Secretary DILLON. That is the crux of what I was trying to point out. That is the fundamental reason.

Mr. RHODES. What we do with them in the future is a great responsibility.

#### DURATION OF FOREIGN AID PROGRAM

Have you any idea, Mr. Secretary, how far we really intend to go in this foreign aid program? In other words, it seems to me that all things are relative. While there is a great difference now between our standard of living and that of the people of central Africa, very likely a few years ago, as we count time, there was not anywhere near the relative difference. In other words, although some Africans are probably living about the same way today as they did in the early 18th century, we are living much differently. In the early 18th century, we probably would not have considered that they were in dire straits, because we were closer to the same condition in which they lived than we are now.

The idea, of course, is that we might expend our fortune and our efforts to bring many of these people up fairly close to our own standard of living, and then what do we do? Do we gear our rate of progress to theirs in the future? If we do not, do not our children and grandchildren in years to come find themselves in the same position of having to extend foreign aid in order to bring some race of people up almost to their particular position?

At what line can you say that we have helped these people as far as we should help them?

Secretary DILLON. I think that is a reasonable and interesting question, but I think there is a place where that line can be drawn, and it can be drawn far short of a level that would be comparable to our own level. That is, at the level at which their economies will be strong enough to carry the burden of financing their own further development through normal business channels. The countries of Europe, for instance, have a standard of living that is considerably less than that of the United States, but they can still finance themselves perfectly well.

Mr. RHODES. If our rate of growth were to continue to rise in relationship to many of these other nations, then the disparity would become greater as the years go on. While in your statement I believe you mentioned that sometime we may be able to get out of this business of foreign aid, sometimes we wonder if we really can unless we adopt

a certain philosophy which would provide for an almost automatic cutoff at some period in time and space in the future.

Secretary DILLON. A country in Asia, like Japan, with relatively low income per capita compared to our own, has proved itself well able to provide its own financial development. I think you can look forward to these countries reaching this level at a point that is far below our present level and far below what our future level will be. I do not think it will be necessary at all to hold back our own development to match the pace of these other countries.

Mr. RHODES. Do you think, when they arrive at this point, they will be satisfied?

Secretary DILLON. Yes. There has been no indication that the European countries and Japan are not satisfied. In fact, they are making very rapid progress under their own steam.

Mr. PASSMAN. Mr. Conte?

#### INTEREST ON RELENDING OPERATIONS BY LATIN AMERICAN RECIPIENTS

Mr. CONTE. Mr. Secretary, in the Latin American program of a half billion dollars, a controversy arose in the Senate that the amount of interest charged for those loans was too high. I believe it is 12 percent. The issue was resolved in conference. How can we reconcile this proposal for development loans with back-door spending and no interest charges?

In that particular instance, I believe Senator Williams of Delaware, tried to set a maximum interest rate to be charged for the loans. He was opposed by the administration, or by the Senators representing the administration in the Senate. How can you reconcile this program DLF where you have no interest charge at all?

#### INTEREST ON RELENDING OPERATION

Secretary DILLON. The controversy was not over the rate of interest to be charged for loans from this \$500 million. The controversy was over the rate of interest which recipients of these funds might charge in a relending operation; specifically in mind were savings and loan type associations, things of that nature, which are being established and beginning to take hold throughout Latin America, at least in many countries of Latin America, and which give real promise of being very helpful in enabling the Latin American countries to develop a way of financing their own housing.

Because housing is so important and costs so much money it has to be financed in great bulk internally, if not externally. Some of these funds were to be available as loans to such organizations to get then started because many of them are just beginning and need additional help.

They would also, however, depend largely on funds raised locally, and if they were going to get any local funds—savings from individuals locally—they would obviously have to pay the going rate to their depositors, like a depositor in a savings and loan association in this country. He gets  $4\frac{1}{2}$  percent, or whatever it may be, out West, and  $3\frac{3}{4}$  or 4 percent here in the East. Down in the Latin American countries, where the rates are considerably higher in many places, savings and loan associations would have to pay 7 or 8 percent to

get deposits from local individuals, and then would have to relend their funds at a high enough rate to make the operation financially successfully to carry itself. In some cases where they were newly starting it is felt that the rate might go as high as 12 percent.

When this Williams amendment was adopted, the Prime Minister of Peru, who has been very interested in getting this housing started and is putting through housing legislation in Peru, sent word up here to the State Department saying that the limitations such as Senator Williams proposed, which would be that these savings and loan organizations could not reloan money at more than 8 percent which would be the same price they would have to pay, would make impossible the creation of these associations. He, therefore, hoped this would not be done. That was the view that prevailed.

Mr. PASSMAN. If the gentleman will yield to me to make an observation, we just refused to bring the bill back until such time as the conferees of the other body yielded on that particular section.

Secretary DILLON. We appreciated that very much.

Mr. PASSMAN. The total amount of money made available under the agreements of the Bogotá Conference is a small percentage of the total money that will be used by the banks and the small finance companies in Latin America.

In many instances they paid as high as 15 percent to investors to get them to make investments, and their entire economies are built up around higher interest rates. Billions of dollars are repayable to the finance companies and to the banks, maybe at interest rates of 12 or 14 percent. You were expecting those same individuals to buy stock in many associations that were being set up. They claimed the limitation proposed would throw their entire economy out of balance and they would prefer not to have it at all with those restrictions.

We did bring it back with this proviso: that the interest rate charged would not be higher than the prevailing interest rate in the individual nations. If a nation is operating on 6 percent, there would not be an 8-percent loan. It would be 6-percent money. Is that a statement of fact, Mr. Secretary?

Secretary DILLON. Yes, sir.

Mr. PASSMAN. Thank you.

#### FLEXIBILITY OF DEVELOPMENT LOAN FUND INTEREST RATES

Mr. CONTE. I still cannot reconcile in my own mind why such an amendment was opposed, when you plan to go down to some of the same countries which are geared to the high interest rate and offer them development loan funds with no interest rate at all. This is troublesome to me. I think you would be a fool to borrow money in South America when you can come to the United States and obtain a loan with no interest charge and repayments to begin after 10 years.

Secretary DILLON. I think you have a very good point, Mr. Conte. It is not contemplated that any individual would be able to get that sort of terms. These terms are flexible and when you came to loaning money to individuals, private enterprises, you could not use the zero interest rate when a competing private enterprise next door was paying a substantial amount of interest.

Mr. CONTE. Are you saying you are not going to use the DLF to grant loans to private individuals and private enterprises throughout the world?

Secretary DILLON. What did you say?

Mr. PASSMAN. This development loan will be used for loans to private individuals and private enterprises?

Secretary DILLON. That is correct. However, the rates charged them will not be this zero interest rate. It will have to be a higher rate.

Mr. CONTE. Then this is flexible?

Secretary DILLON. It is flexible.

Mr. CONTE. The zero rate does not apply across the board?

Secretary DILLON. Not across the board.

Mr. CONTE. Besides charging an interest rate, you can also require that the loan be repayable in a year or 2 years?

Secretary DILLON. Any terms they desire. However, 50 years is the maximum term.

Mr. CONTE. In regards to the old Development Loan Fund that we had, 80 percent of it was repayable in soft currency. We had a clause in the contract that that money could not be taken out of the country. Is that going to be changed at all?

Secretary DILLON. There won't be any necessity for a clause like that, since repayment will be in dollars.

Mr. CONTE. That money will come back to the Treasury?

Secretary DILLON. Yes, sir.

I think, to be exact, under the proposal as submitted, that money would come back into a revolving fund, although I understand that the Senate Foreign Relations Committee, in reporting the bill the other day, changed that provision and said the funds would go into the general funds of the Treasury. I also understood that is acceptable to the administration.

Mr. CONTE. Mr. Secretary, you stated that one of the reasons why we need this type of a development loan fund, the back-door borrowing from the Treasury, is that we could not have any long-range planning. The chairman asked you if you could name some country where we could have done better had we had long-range planning. You mentioned Taiwan.

Secretary DILLON. Among others. I think India is probably a better example.

#### LONG-RANGE ECONOMIC AND SOCIAL PROGRESS PROGRAM IN TAIWAN

Mr. CONTE. You used Taiwan. I would like to stay with Taiwan because overnight I have been able to go over my records on Taiwan. What social progress do you feel we could have advanced in that country had we had long-range planning?

Secretary DILLON. Well, I was familiar—I haven't had the chance to refresh my memory but I remember very well a couple of years ago that the Government of Taiwan came up with a program of financial, monetary, and fiscal reforms which sounded very good and which we hoped they would promptly put into effect. They requested our aid to help them put it into effect. It would, of course, have been very helpful if they could have gotten long-term commitments of

aid. However, we told them that, although we were not in a position to give such multiyear commitments, they should be able to rely on us because we had helped them regularly in the past, and there was every indication that we would continue to do so in the future.

They were not particularly satisfied with that and I think, as I recall, the facts show that they did not implement this program as rapidly as we had hoped. What the status of it has been in the last year, I do not know. I am sure some people from the State Department can answer that question for you.

Mr. CONTE. I have here, Mr. Secretary, an economic progress report on Free China between 1951 and 1958. It is published by the International Cooperation Administration, Mutual Security Mission of China, which I obtained when I was in Taiwan in 1959.

As you know, Mr. Secretary, in Taiwan, they have had a 4-year economic and social progress program from 1951 to 1956 and they are now ending their second 4-year program. During this time, the Taiwanese have made a very impressive record.

It is my understanding that 93.82 percent of the school-age children attend school. Between 1951 and 1956, their industrial expansion increased 53.2 percent. Electrical power increased 58.5 percent. The national income increased 40 percent. In 1956, the gross national product was 66 percent higher than in 1950, and their per capita gross national product increased 35 percent. Their exports in textiles increased from none in 1952 to \$2,776,000 in 1956. Their exports in hardware and machinery increased from \$682,000 in 1952 to \$4.4 million in 1956. Their exports in chemicals increased from \$165,000 in 1952 to \$1,580,000 in 1957.

Of the 20,000 plus factories in operation in Taiwan, at the end of 1947, approximately one-third came into being after 1952. Their agricultural output increased 32 percent between 1950 and 1956. Their manufacturing output during the same period of time increased 132 percent. In 1949, they were generating 854 million kilowatt hours. In 1957, they were generating 2,550 million kilowatt hours. In 1956, Taiwan passed a new income tax law. Their foreign investments increased tremendously, likewise their money supply. Their highways have quadrupled. Railways and bus transportation has increased by leaps and bounds. They have improved and modernized their education system. In the last few years, they have doubled the number of university graduates and have some 8,000 students in their vocational schools.

Mr. Secretary, I believe this is an impressive record and was all done through the efforts and the help of our foreign aid program. If there is any country in the world where I have visited, which is an example and a showcase of the fruits of our foreign aid program, it is Taiwan.

#### SELF-SUSTAINING DEVELOPMENT IN TAIWAN

Secretary DILLON. I do not think I made myself very clear. I agree with you 100 percent that Taiwan has a terribly impressive record in what they have done. It is because of that that we felt in 1959 that they were approaching a point where they could reach self-sustaining development and we were working on a program whereby we hoped that within a relatively short period, something

like 5 years, they could dispense entirely with grant assistance and carry on and develop themselves on their own, more or less in the way Japan is doing. As part of that program some of the things that were necessary were tax reform, monetary reform, and various things of that nature. Accordingly they developed their program at that time with this in mind.

#### REMOTENESS OF GRANT ASSISTANCE IN TAIWAN IN NEAR FUTURE

Unfortunately, as I said, this type program was not carried out as successfully as either we or they had hoped, so the chances of Taiwan going off of grant assistance completely in the next 2 or 3 years is now, I would say, quite remote. In fact, the day when Taiwan goes completely off foreign assistance does not seem much nearer today than it did in 1959. That is all I was talking about. I am not criticizing their tremendous improvement. It has just put them in a class more or less by themselves. That is why we were hoping they could make this additional breakthrough.

Mr. CONTE. I take issue that we could have done more had we had back-door borrowing from the Treasury.

Secretary DILLON. I do not think we could have done more in the earlier period. It was just to get them to do this sort of particular reform that I had in mind. I think we did a magnificent job in those years.

Mr. CONTE. We have another problem in Taiwan. It is very difficult to do anything about it; that is the military drain on the budget in that particular country. They have to plow back so much in their military defenses.

Secretary DILLON. We had felt, and had reason to believe, that they could carry even that, except for the equipment costs. We could have had to continue to supply the equipment, while they carried the costs of their Army, but it has not worked out that way.

#### JAPAN'S PROGRESS WITHOUT BACK-DOOR SPENDING

Mr. CONTE. You brought out another example of another country where we have done very well. We have done well in Japan without this back-door spending.

Secretary DILLON. Japan is a developed country.

Mr. CONTE. It sure is, but it was not when we started in with our foreign aid program.

I think, Mr. Secretary, that Mr. Ford brought out a very good point, that you should go back to the administration and inform them of our feeling on this subject. You have some good friends on this side of the table who feel very strong for this foreign aid program but I am afraid they are going to dampen their spirits by what they are trying to do here. I cannot see why they cannot accomplish the same purpose by a multiyear appropriation, come to the Congress and ask for the funds for 3 or 4 years.

Secretary DILLON. A multiyear appropriation which actually provides the funds would achieve just the same purpose.

Mr. CONTE. Exactly the same.

## NEED FOR REFORMS IN COUNTRIES PRIOR TO AID REQUEST

Mr. PASSMAN. It would appear to me that this program would be more acceptable to the overburdened taxpayer of America if we would go out to these recipient nations, and let them get their houses in order, pass their laws, and then come to us and say, "Now we have initiated the necessary reforms. Our house is in order. Do you not think now you should give us some consideration?"

We discussed yesterday that it is not the long-range planning of programs and projects, but long-range financing that is considered desirable, and that it is an enticement to these people to pass laws bringing about land and tax reforms. To say that we have to obligate this Government for 5 years in advance so as to entice those countries to pass laws themselves, well, to me, that appears to be a rather far-fetched conclusion.

Secretary DILLON. I would not like to characterize it quite that way, as you know, Mr. Chairman.

Mr. PASSMAN. I drew those conclusions.

Secretary DILLON. I want to make it clear those are not my conclusions.

Mr. PASSMAN. It was your statement indicating that it was an enticement—

Secretary DILLON. I never made such statement.

Mr. PASSMAN. You did not say it was in the nature of an enticement to get these people to pass laws?

Secretary DILLON. No. I am sure I never used the word "enticement."

Mr. PASSMAN. I think the words you did use will support my impression.

## QUESTION AS TO DIFFICULTY OF FINANCING LONG-RANGE PROGRAMS ON A YEAR-TO-YEAR BASIS

Mr. GARY. Mr. Secretary, a nation has worked up a long-range program, and has presented that program to us. They want our help in that program. We tell them that we are ready to help them in that program. We will give them so much money. Let them have it for 50 years without interest, with the understanding that the first 10 years they won't pay back any of the principal, the second 10 years they will pay back 1 percent annually, the next 30 years they will pay back 3 percent annually. Do you think they are going to then question what authority the Agency has to make them that promise and say, "We want you to go back and get long-term authority, so we will be certain that every dollar of this will be put up?"

Secretary DILLON. No. I think if we actually do make such a promise, they would not go behind our statement.

Mr. GARY. We can assure them now that would be done, can we not?

Secretary DILLON. No, only to the extent of the funds that are available. You only have made them available year by year.

Mr. GARY. We have been participating in these projects. We do not agree to put up so much now, but we have made an initial advancement and told them that we would go along with the project.

Secretary DILLON. That was true in the Indus water project. That was a special situation.

Mr. GARY. In a situation of that kind where the plan has been worked out, why would it be any hardship for the Agency to come before the Congress and present the plan before committing the Government to expenditures totaling hundreds of millions of dollars?

Secretary DILLON. I think it would just be very difficult administratively but I would rather let the Agency representatives speak for themselves.

Mr. GARY. It will be difficult for us to give them the authority to go ahead and make these commitments, binding the U.S. Government up to \$8 billion, without the elected representatives of the people, who are sent here for the specific purpose of making these appropriations, under the Constitution having any say in it at all.

#### DISTINCTION BETWEEN FINANCING LONG-RANGE PROJECTS AND LONG-RANGE FINANCING OF PROGRAMS

Mr. PASSMAN. If the gentleman will yield, with reference to the DLF, is it not true that the total appropriation for this purpose since the inception of this program is approximately \$2 billion? Even though the DLF program has been in effect several years, the actual expenditures have been actually only about 25 percent of that amount?

Secretary DILLON. That is correct.

Mr. PASSMAN. Is that not, in effect, what you would call long-range financing?

Secretary DILLON. No.

Mr. PASSMAN. Because you enter into the obligation, you advance the money as the project progresses?

Secretary DILLON. No. That is not what we referred to at all. In each one of those cases when the commitment is made we set aside funds for the whole commitment. What the administration refers to when talking about long-term planning for economic development is the ability to tell a country that it will make commitments of roughly a given order of magnitude over the ensuing so many years, provided a development plan and program submitted by the country is a suitable plan.

Mr. PASSMAN. If you make a \$50-million loan under the DLF, it may be for a project requiring 4 to 5 years or more to be brought to completion, will it not?

Secretary DILLON. That is right.

Mr. PASSMAN. Do you call that anything else but long-range financing?

Secretary DILLON. It is financing of a long-range, single project, but the financing can only be done in 1 year. It is not long-range financing of an overall development program.

Mr. PASSMAN. You make your commitments, do you not, Mr. Secretary, when you obligate the funds? When you make the commitment and issue the letter, you obligate yourself also for the subsequent years?

Secretary DILLON. It is a long-range commitment of the project, but not of the overall program.

Mr. PASSMAN. That is understood. Each of those commitments is for a specific project and development program.

Secretary DILLON. As you say.

Mr. PASSMAN. Has this not worked out satisfactorily?

Secretary DILLON. It has worked out for each project satisfactorily, but it has not worked out for the overall program.

Mr. PASSMAN. I think we have agreed that a completely different standard will prevail for projects in foreign nations, than the manner by which we operate here in America for similar projects?

Secretary DILLON. It would be different because we would be setting up overall development programs which involve legislation of a type that is not required in this country. It involves changing tax laws, land reform, things of that nature.

Mr. PASSMAN. I am glad you brought that up again. I think we are in agreement that we are discussing this proposal on the basis that it would encourage them to amend the laws, bring about tax reforms and certain legislation, making it possible for them to match our money; is that correct?

Secretary DILLON. I think it would make it possible for them to do it.

Mr. PASSMAN. Is that not what we stated previously?

Secretary DILLON. It would make it possible for them to do it. I do not think it would "entice" them to do it.

Mr. PASSMAN. I am willing to substitute a word for "enticement." If you are quarreling about that one word, in effect we are in accord, that it would encourage them. Will you accept that?

Secretary DILLON. That it would make it possible for them.

Mr. PASSMAN. Did we also agree previously that we are thinking in terms, not necessarily of long term program and project planning, but finance planning?

Secretary DILLON. That is correct.

Mr. PASSMAN. I do not think the American people understand that fact. I believe they think we are talking about better planning as it applies to projects and programs, and not just finance planning. I think the American people need to realize that we are not referring to individual programs and projects, but more to better finance planning because then you would not have the Appropriations Committee considering your annual request.

Thank you for yielding.

#### PREROGATIVE OF CONGRESS TO MODIFY OR LIMIT PROGRAM

Mr. CONTE. Mr. Secretary, I want it understood that I do not disagree with your aim. I agree with your aim in long-range planning. I disagree with the method that is being used. I feel that we are relinquishing our authority to the executive branch of the Government. This is a matter of principle. I believe it is an issue that will demand a great deal of soul searching.

Yesterday you mentioned the Government Corporation Control Act. You mentioned that the Congress still could limit the DLF borrowing authority.

If this is so, why would it not have the same effect on the governments that are trying to do long-range planning to say to the State Department, when they go out there to negotiate, "There is this Government Corporation Control Act. Congress still has the power to limit DLF appropriations." In essence it has the same effect. Therefore, they won't take the chance of programing for 5, 6, or 7 years.

Secretary DILLON. I think I could not answer that any better than was done in this letter which the Secretary of State and I sent to the Members of the Congress where it says:

This system would have a very significant advantage; that it would create a strong presumption which does not exist under the present system.

Funds in known amounts would be available for the continuation of the program, even though the Congress could take later action to the contrary. Developing nations will feel safe in the conviction that the Congress, once having asserted its policy, will not reverse it unless it finds that the purposes of the legislation are not being fulfilled or that other circumstances of an exceptional nature make such action necessary.

I think that would be a great improvement over the present situation.

As you pointed out, it makes possible long-range commitments by other means such as multiyear appropriations.

Mr. CONTE. Could you give us an example of where the purposes would not be fulfilled?

Do you set them out in your letter?

Secretary DILLON. No. I think that probably was one of the questions of either Mr. Ford or Mr. Rhodes. There could be very serious mismanagement in the program and the purposes would not be fulfilled. They would also not be fulfilled if a country moved out of the free world.

Mr. CONTE. Would that be the only two cases in which you feel that Congress would be in a position to limit these appropriations?

Secretary DILLON. No. We mentioned a number of others. If by any chance, which we do not expect, war should break out, a serious war, obviously the situation would be very changed. If by any chance, again which we do not expect, we had a depression of the type and magnitude we had in the 1930's, that would be a different situation. We would not have the ability to do as much as we had thought we could. There undoubtedly are other situations. I said it is very difficult to list every possible situation where the Congress, which has to make the ultimate determination, and nobody else, would decide for itself that this was sufficient reason to change their mind.

Mr. CONTE. I have no further questions.

Mr. PASSMAN. Mr. Secretary, you do understand that we are not quarreling. We are trying to understand the same thing.

#### COMMITMENTS PRIOR TO COUNTRY REFORM LEGISLATION

Let us look at the hearings of the Latin-American program testimony, with Mr. Gordon testifying. I shall quote:

In many cases this will involve legislation on their part, and in other cases substantial administrative action, including the development of new administrative institutions, because, as you know, in many cases the governmental machinery is very weak. This is one of the difficulties in Latin America. In order to get these things set up on a proper basis where they require some outside support, there has to be some assurance in advance that the necessary outside funds will be available.

So, I repeat, it looks as if the intent is that we will first make the funds available, then assure them that we have the money. It means that they will then take, or we hope they will take, necessary action to change their administrative machinery. Am I applying an accurate interpretation to what Mr. Gordon said?

Secretary DILLON. I think Mr. Gordon's statement is accurate.

Mr. PASSMAN. I think Mr. Gordon's opinion is rather unsound, when this country is giving something away, but we have to first wrap it up, put a bow on it, and say, "Here it is; now you pass certain reforms." Certainly there has been a change of opinion in that respect, because last year we were assured, over and over again, that they would enact these reforms prior to the appropriation; but when we reached the point of considering the appropriation, they said, "We have committed it. Those statements notwithstanding, you have got to come up with the money or else our Government will be embarrassed."

Mr. CONTE. You were in charge of the delegation in Bogotá last December?

Secretary DILLON. That is correct.

Mr. CONTE. Did you experience any difficulty there with the other 19 Latin American countries in signing that agreement?

Secretary DILLON. No; much less than we ever had before. They were very ready to make these pledges, which they did in that agreement, to undertake broad-scale reforms and put up funds of their own and join in self-help.

Mr. CONTE. Of course, that was based on an authorization bill.

Secretary DILLON. That is right.

Mr. PASSMAN. We really had expected them to initiate their reforms and actually pass their laws before this country put up the money?

Secretary DILLON. I think the idea was, and still is, that they will certainly take action toward these reforms before funds are made available to the individual country.

Mr. PASSMAN. But in this particular instance it worked just the opposite, did it not, in that we first made the money available?

Secretary DILLON. No. You made the money available to the ICA and to the Inter-American Bank, but I think it is their intention not to make it available until some action has been taken, although not necessarily complete action.

Mr. PASSMAN. Those countries are the recipients, are they not?

Secretary DILLON. The South American countries?

Mr. PASSMAN. Yes.

Secretary DILLON. Certainly.

Mr. PASSMAN. If you are going to have something given to you, would it not naturally follow that at least you should prepare yourself to receive it? Would it not be better to have them establish their good faith first? Of course, that is water under the bridge, but I remember this whiplash coming down, based upon the premise that we had made the promise, that we had committed ourselves.

I am afraid that the same kind of thing will happen if you should get the type of legislation you want. It has already been agreed that you could legally obligate the \$8.8 billion, technically, the first year. Could they not apply that same system of saying, "We have committed ourselves, and you don't dare run out now?"

We did not know what the money would be spent for in Latin America. There were no projects planned. They are imaginary up to this point. Could not that same kind of pattern be used on this \$8.8 billion?

Secretary DILLON. Spending of the \$8.8 billion would be based, as in the case of Latin America, on agreements between our Government and recipient governments that they would begin to take certain actions along these self-help lines.

Mr. PASSMAN. If you get the legislation that you have asked for, the commitments will have been made before the Congress actually knows what countries you made the commitments to and for what projects. Is that a statement of fact?

Secretary DILLON. I think that is a statement of fact. Under the proposed bill there would be reports, although they would be made immediately after the fact.

Mr. PASSMAN. Under the proposal, the executive branch would first make the commitments. After the commitment had been made, then the Congress would learn what projects and programs and nations would receive the money.

Is that, in practical effect, the fact?

Secretary DILLON. I think that is correct.

Mr. PASSMAN. That is a pretty sad day in court, as far as I am concerned, for fiscal responsibility.

Mr. Rooney?

Mr. ROONEY. I do not have any questions at this point.

Mr. ALEXANDER. Would you yield, Mr. Chairman, for one question?

Mr. PASSMAN. Yes, indeed.

#### CONGRESSIONAL PREROGATIVE TO LIMIT OR MODIFY PROGRAMS

Mr. ALEXANDER. Mr. Secretary, several years ago we were assisting Laos to a large extent through this program.

It was brought out, through probing of this committee, and I believe some of the other agencies of the Government, that there was a lot of fraud and other things that were apparently being tried to be swept under the rug by the administrators of the program.

I had the feeling that certainly this committee was very helpful in assisting the executive department in bringing to a head a solution to a bad situation that was allowed to accumulate and continue.

Under the new proposal, where you get the money through the back-door approach, there would be no annual appropriation. This committee could do nothing about a situation of that kind. We would have no leverage whatsoever, would we?

Secretary DILLON. I would think so, if you felt it was a serious enough situation and you investigated it, I think that would fall under a type of situation Mr. Ford pointed out, where, if there was mismanagement that was serious enough, and no indication that it was being corrected, the committee could feel they might want to put a limitation on the funds that would be expended in that area in the future.

#### PROCEDURE FOR CANCELING USE OF FUNDS

Mr. PASSMAN. The burden of proof switches from the executive to the legislative branch; is that correct?

Secretary DILLON. Yes. Not the burden of proof, vis-a-vis the Executive, but the burden of proof, vis-a-vis the Congress conscience in changing the program.

Mr. PASSMAN. Under the existing authorization, you come in and justify your projects in detail?

Secretary DILLON. That is right.

Mr. PASSMAN. If you get the legislation that is proposed, then the legislative branch would have to go out, establish that there is a scandal, or something else of such nature going on, and we would have to take it away from you?

Secretary DILLON. That is correct.

Mr. PASSMAN. What is wrong, then, with the statement that the burden of proof is shifted from the executive to the legislative branch?

Secretary DILLON. I think there is a shift. You do not have to prove to our satisfaction, you have to prove to your own satisfaction.

Mr. PASSMAN. What do you mean "prove it to our own satisfaction"?

Secretary DILLON. The executive could protest all they wanted to but would not have any power.

Mr. PASSMAN. If this subcommittee should go out and find out that the program is not operating satisfactorily, are you immediately going to cease operation?

Secretary DILLON. If you find out something is being done wrong, I think certainly the administrator would be very grateful for your help in pointing out something like that, and would correct the situation.

Mr. PASSMAN. We have not been able to correct enough of the wrongs under the present system, even with annual review and appropriations, so you would not expect us to make much progress by completely turning loose the purse strings.

Secretary DILLON. I thought Mr. Alexander just pointed out you made great progress is showing what happened in Laos.

Mr. ALEXANDER. We took the fraud away; I hope we did.

Mr. PASSMAN. I, too, hope that we did.

Mr. ALEXANDER. The point I was trying to make, though, is this—once this program is underway the effectiveness of any subcommittee investigating appropriations in my opinion would be almost nil because the administrators would hold no responsibility to us at all, would not be dependent upon us for funds, and I think the program would more likely be much looser than it is today.

Secretary DILLON. There is one thing under the proposal. The administrators of the program would be fully dependent every year on annual appropriations for their own administrative expenses and their own salaries, so they would be very much responsible.

Mr. ALEXANDER. The administrators are not paid out of funds that would come out of this?

Secretary DILLON. No. They would be paid out of appropriated funds.

Mr. ALEXANDER. That might be one way to get at it.

Mr. PASSMAN. Mr. Secretary, I think that under the proposed legislation whatever move this committee might make, the executive has something to counter that move. We might as well be realistic about this.

In the military program, for example, if the committee and the Congress should make any reductions, under the language of the bill they could immediately offset any cuts we make by borrowing from Defense Department funds, expecting a subsequent appropriation, so you have the door locked there.

With regard to the exaggerated requests for the President's contingency fund, if we made justified cuts along the way in all the other programs, such as, for instance, defense support, the Department could immediately follow with what was practiced 2 years ago and transfer out of the contingency fund, and offset the cuts. Then, if you get the back-door approach to this other, it is almost a waste of time for the committee to conduct hearings.

We have worked very hard to help make this a better program. It is not pleasant to realize now that if the proposed legislation is approved, it is about to be shifted to a manner of operation under which the Congress no longer would have control.

You and I both know that is a fact. All of us know it.

CIRCUMSTANCES JUSTIFYING MODIFICATIONS OR LIMITATIONS OF  
PROGRAM BY CONGRESS

Mr. FORD. If I could return to this limitation on what conditions would prompt Congress to modify, or limit, the funds under the Government Corporation Control Account, you said:

Such reductions in expenditures could properly be made only in special, or unusual, circumstances.

Then you said one such circumstance would be a depression such as we had in 1930. We have not had a depression of that magnitude for 30 years, or thereabouts.

Secretary DILLON. I do not expect any such depression.

Mr. FORD. Fortunately we have not had one like that for some 30 years, but the likelihood of Congress, under your guidelines, properly taking action to limit expenditures in this area would be virtually nil. We certainly hope so.

Secretary DILLON. I do not think my guidelines would be worth a great deal. I tried to do my best in answer to a question. This is something I said was very difficult to specify, and the final decisions are entirely up to the Congress and the competent committee, which is this committee in the first instance.

Mr. FORD. I am just trying to develop how realistic these guidelines are under the definition of special, or unusual, circumstances.

Certainly the one about the depression of the magnitude of the depression of the thirties is not very probable or realistic.

Secretary DILLON. Not likely.

Mr. FORD. The second one was war.

Secretary DILLON. I hope that is not likely.

Mr. FORD. We all hope that.

So from a realistic point of view, as far as the Congress is concerned, that is not a very probable guideline where we could take any action.

The third one, as I remember, is where a country left the free world. Under these circumstances Congress would be justified in making some reductions. How do you define "leaving the free world"?

Secretary DILLON. Someone asked if the Cuban situation would be an example. I said "Yes." I do not think you can cover every possible way of doing it, but I think it will always be very obvious when a country has done it.

Mr. FORD. A country leaving the free world would be one voting consistently against our viewpoint in the United Nations?

Secretary DILLON. That would be up to the Congress to determine.

Mr. FORD. However, that would be some evidence of their leaving the free world, would it not?

Secretary DILLON. If the votes were consistent all the time. I presume if they voted consistently with the Communist bloc all the time, I think it would be certainly an indication there was an affinity.

Mr. FORD. Supposing they voted against us on two or three major issues in which we felt our interests were very deeply involved?

Secretary DILLON. I would not care to venture an opinion on that. I think every person would have to answer that for himself.

Mr. FORD. Those kinds of circumstances would give the Congress an option in this area to take action that would reduce, or limit, the expenditures?

Secretary DILLON. Certainly.

Mr. PASSMAN. Would it not follow that the record will show in instances such as you have described, they merely suspended the aid?

I know of some instances in the past, for instance, Egypt, where we had certain types of aid. The obligation was retained, but the expenditure was suspended. I think that later maybe we even made the expenditures. Suspending the aid would not be reducing it.

Secretary DILLON. Not if you did that.

Mr. PASSMAN. Is that matter not in the record?

Secretary DILLON. Except in the case of Egypt—

Mr. PASSMAN. That is one of them.

Secretary DILLON. There was a period of years when no new funds were obligated.

Mr. PASSMAN. But the amount that had been obligated was kept on the books to the credit of Egypt.

Secretary DILLON. That is correct.

Mr. PASSMAN. Any further questions?

Thank you very much, Mr. Secretary. You have been very cooperative. You have tried very hard to answer these questions.

We recognize that some of the questions do not have an answer, but we do want to give you credit for wanting to help the committee to try to understand some of these complex problems. We hope we can be helpful to you in the performance of the duties of your most difficult job.

Secretary DILLON. Thank you, Mr. Chairman.

## LIST OF WITNESSES

---

	Page
Barnebey, M. R.....	1
Bell, Hon. J. O.....	1
Bundy, W. P.....	1, 75
Dillon, Hon. Douglas.....	110
Hays, Brooks.....	1
Lemnitzer, Gen. L. L.....	75
McNamara, Hon. R. S.....	75
Mossler, J. R.....	1
Palmer, Gen. W. B.....	75
Rubin, S. J.....	1
Rusk, Hon. Dean.....	1

JOURNAL OF WILSON

1862  
1863  
1864  
1865  
1866  
1867  
1868  
1869  
1870  
1871  
1872  
1873  
1874  
1875  
1876  
1877  
1878  
1879  
1880  
1881  
1882  
1883  
1884  
1885  
1886  
1887  
1888  
1889  
1890  
1891  
1892  
1893  
1894  
1895  
1896  
1897  
1898  
1899  
1900

# INDEX

---

## A

	Page
Allocation of funds to foreign countries, need for improvement.....	167
Appropriations, reduction in.....	208

## B

Back-door borrowing authority from the Treasury, long-term.....	7, 113
Advantages and disadvantages of program.....	185, 186
Amount of borrowing authority requested in 1962.....	173
Annual appropriation with 5-year authorization bill.....	61, 65, 147, 216
Appropriations made heretofore, compared with amounts requested..	58
Appropriations, reduction in.....	208
Approval by Congress of individual long-term projects in lieu of blanket authority.....	142, 145, 183
Authority existing for long-term projects.....	126, 216
Budgetary effect of.....	115, 127
Commitments of the United States prior to appropriations:	
Cancellation clauses in agreements.....	184
Congressional approval prior to.....	145
Necessity for making before foreign governments have acted.....	131,
133, 146, 162, 185, 216, 219	25
Projects previously committed for more than 1 year.....	59
Amount of advance commitments made subject to future appropriation.....	59
Reductions, modifications, etc., by Congress subsequent to lending agreements.....	122, 125, 144, 151, 158, 180, 193, 218, 221, 223
Responsibility of United States to complete, compared with exist- ing procedure.....	62, 150, 156, 160
Restrictions on.....	152, 153
Without prior congressional approval.....	157, 160
Congressional control of funds, loss of.....	8, 20, 71, 114, 157, 160
Constitutional limitation on back-door financing.....	20, 120, 158, 159
Continuity of program under.....	150
Cost of program.....	184
Countries having long-range development programs, aid extended to.....	154, 156
Deferred principal collections.....	176, 192
Development credits proposed.....	141, 183
Domestic programs in United States, long-range, annual author- ization and appropriation bills for.....	14, 128, 162
Effectiveness of proposal.....	149
India, assistance to.....	127, 152
Interest on loans.....	140
Justification of projects, shift of burden to Congress.....	143, 221
Limitation on amount of lending, annual.....	123
Multiyear appropriations in lieu of.....	208, 215
Other programs and agencies having back-door financing.....	114, 117, 164
Procedure proposed for authorizing and appropriating funds.....	123
Projects proposed under.....	29
Purpose of request.....	7, 23, 60
Financial planning rather than project planning.....	146, 217
Reductions in prior program, effect on new proposal.....	160, 208

## IV

Back-door borrowing authority from the Treasury, long-term—Continued	
Regular appropriation procedure:	
Amount previously appropriated compared with amount requested	Page 58
Deficiency of	24, 26, 29, 63, 64, 130
Latin	135
Middle East	138
Taiwan	134, 138, 142, 143, 147, 213
Long-range projects under	130
Repayment of loans with dollars	114, 116, 139, 191, 209
Use by all lending agencies for foreign aid	166
Balance of payments, U.S.	112, 118, 169, 171, 178
Berlin situation	33, 36
Bogotá Agreement	132, 145
Budget for 1962:	
Compared with 1961 appropriation	44
Programs included in	43, 173, 179, 195, 205
Items subject to regular appropriation process	206
"Buy American" policy	169, 174
C	
Congo defense expenses	69
Contingency funds	11, 55, 66, 107, 190
Allocation to defense support program	43
Countries receiving foreign aid	118
Cuban situation	41
D	
Deficit, U.S.	181
Development Loan Fund:	
Appropriations and obligations	129, 148
Collections in dollars and local currency	191
Inter-American Development Bank, loans to	164
Interest rates, flexibility of	212
Lending terms	193
Merger with ICA functions	6, 37, 67
Dollars returned to United States from foreign aid program	170
Duration of foreign aid program	210
E	
Economic assistance program:	
Back-door borrowing authority from the Treasury. (See this title.)	
Collections on foreign loans and credits	196
Development Loan Fund, appropriations and obligations	129, 148
Foreign currency expenditures in 1962	68
Grants, financing by annual appropriations	114
Grants for economic development	9
Relending of loan repayments	9, 116, 195
Interest on	211
Repayment and collections available for relending	195
Economy of United States	182
Effect of foreign aid program on	170
Expenditures in 1962	120, 173
Expenditures in future years against 1962 obligations	121
Expenditures in the United States	169, 174
Export-Import Bank request for 1962	187
F	
Food-for-peace program, merger with ICA functions	6
Foreign currency expenditures in 1962	68
Foreign-held, short-term dollar assets	118, 171
Future needs of program	4

	V	Page
	G	
Gold holdings of United States.....		118
	I	
India, assistance to.....		127, 152, 168
Inter-American Development Bank, authority to borrow from Development Loan Fund.....		164
Inter-American program for social progress.....		40, 132
	J	
Japan, assistance to.....		108
	L	
Laos, situation in.....		90
Latin America, projects in.....		135
	M	
Military assistance program.....		75
Back-door financing, discussion on.....		35
Deliveries of equipment, excess.....		88
Funds requested for.....		54
Importance of.....		60, 102
Japan, assistance to.....		108
Long-range planning of.....		84
Annual appropriations to implement.....		61, 86
MAAG staffs, size of.....		109
Military pacts, obligations of members of.....		95, 101
Procurement of equipment.....		93
Program for 1962.....		77, 81
Program management.....		79
Transfer of defense stocks and services to.....	45, 51, 65, 97, 104,	188
Modification suggested.....		56
	O	
Objectives of the free world.....		68
	P	
Personnel administering program, quality of.....		38
Public debt of United States.....		118, 169
	R	
Revenues of United States.....		168
	S	
Secretary of the Treasury, letter of.....		122
Success of foreign aid program.....		161
Supplemental request for funds.....		186
	T	
Taiwan, projects in.....	134, 138, 142, 143, 147,	213
Transfer of funds.....	45, 51, 56, 65, 97,	104
	W	
Waste in program.....		50

○



