

INTERNATIONAL COOPERATION ADMINISTRATION

March 12, 1958

RESPONSES TO QUESTIONS COMPILED

BY THE

HOUSE FOREIGN AFFAIRS COMMITTEE

RELATING TO CRITICISMS OF THE

MUTUAL SECURITY PROGRAM.

(Part I)

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QUESTION NO. 1

It has been stated: "Nowhere is corruption in Government more apparent than in what we call foreign aid . . . ."

- (a) Have you found any evidence of corruption by U. S. personnel connected with the foreign aid program?
- (b) To your knowledge has anyone else found or brought to your attention any evidence of corruption on the part of personnel associated with the foreign aid program?

ANSWER:

(a) The criticism stated above which is very broad and sweeping is unsupported by fact. According to the records of the International Cooperation Administration, since 1952 there have been a total of 16 cases in which employees of this and predecessor agencies have been found guilty of conduct which could be classified as malfeasance. One case is currently pending. The following data indicates the disposition of the 16 completed cases:

U. S. Government Employees

Number of cases . . . . .	16
(a) Referred to Justice . . . . .	11
(1) Indictments . . . . .	1
(2) Convictions . . . . .	1
(3) Fines . . . . .	\$7,500.00
(4) Restitutions . . . . .	\$5,176.72
(b) Discharged . . . . .	9
(c) Resignations received while employee under inquiry . . . . .	7

The cases listed above include activity such as falsifying an expense account, falsification of quarters allowance, violations of the regulations relating to conflict of interest, and theft. Most of the cases involve conduct of the type that is likely to occur in any Government agency and is not particularly confined to an agency of this type.

The small number of cases which have been discovered is strong evidence of the effectiveness of the agency's intensive efforts to ensure that its personnel maintain a high degree of responsibility and integrity.

(b) This agency has received many communications from private citizens, businessmen, other Government employees and members of Congress providing information concerning alleged malfeasance or misconduct on the part of the agency's employees. In each case, whether or not the informant supplies any evidence, an investigation is conducted. Those cases containing allegations found to be unsupported by facts after inquiry are closed. Those cases found to have substance after inquiry are included under the response to question (a) above.

QUESTION NO. 2

Eugene Castle alleges that four years ago there were 9,793 persons on the Government's foreign aid payrolls and that today there are 18,891 employed in ICA, State and Defense Department to give our resources away.

- (a) Is this correct?
- (b) What are the correct statistics?
- (c) If there has been a growth, what has been the occasion for this growth in employment?

ANSWER:

(a) The criticism does not indicate the date or period as of which we were alleged to have 9,793 persons on the foreign aid payroll. Our records do not reflect any figure which corresponds with that indicated above.

(b) Assuming four years ago was intended to mean 1953, records of this agency indicate the following personnel strength as of December 31, 1953 and as of December 31, 1957, in the International Cooperation Administration, the Department of State and the Department of Defense:

INTERNATIONAL COOPERATION ADMINISTRATION:	<u>Dec. 31, 1953</u>	<u>Dec. 31, 1957</u>
<u>U.S. Nationals</u>		
Washington	1,440	1,799
Field	<u>2,530</u>	<u>3,684</u>
Sub-Total	3,970	5,483
<u>Foreign Nationals</u>	<u>2,031</u>	<u>4,858</u>
Total Payrolled Employees	6,001	10,341
<u>Indirectly Employed</u>		
U.S. Participating Agencies (reimbursement basis)	<u>570</u>	<u>587</u>
Total Funded Employment	6,571	10,928

DEPARTMENT OF STATE:	<u>Dec. 31, 1953</u>	<u>Dec. 31, 1957</u>
<u>U. S. Nationals</u>		
Departmental	316	342
Foreign Service Overseas	<u>614</u>	<u>562</u>
Sub-Total	930	904
<u>Foreign Nationals</u>	<u>1,947</u>	<u>1,205</u>
Total	2,877	2,109
DEPARTMENT OF DEFENSE:		
<u>U.S. Nationals</u>		
Military Personnel	2,899	6,997
U. S. Civilians	<u>225</u>	<u>377</u>
Sub-Total	3,124	7,374
<u>Foreign Nationals</u>	<u>679</u>	<u>2,033</u>
Total	<u>3,803</u>	<u>9,407</u>
GRAND TOTAL - U.S. Nationals	8,594	14,348
GRAND TOTAL - Foreign Nationals	<u>4,657</u>	<u>8,096</u>
TOTAL EMPLOYMENT	13,251	22,444

(c) The increases in staff under the economic aid portion of the Mutual Security Program during the last four years are the product of two principal factors:

- (1) Continued emphasis on project type aid, particularly "technical cooperation";
- (2) extension of assistance or significantly increased programs in newly developing countries.

The Technical Cooperation Program accounts for approximately 86% of ICA's total personnel strength although appropriations for the carrying out of such programs represent only about 8% of total funds made available for the economic aid program. Obligations incurred under the appropriations for Technical Cooperation have increased each year and this accounts in part for the corresponding increase in personnel. For example, obligations of Technical Cooperation funds were \$113,676,000 in fiscal year 1955; \$126,889,000 in fiscal year 1956 and \$129,185,000 in fiscal year 1957. In addition, program requirements under the Technical Cooperation programs have caused a progressively

larger proportion of available Technical Cooperation funds to be spent for direct hire U. S. personnel. In fiscal year 1954 only 17.9% of the appropriation was used for U. S. personnel. By 1957 this percentage had increased to 25.

Furthermore it should be noted that the countries in which current programs have been expanded, as well as those in which new programs have been undertaken, tend to be the newly developing nations. These do not have enough economists, engineers, and technicians to plan and supervise projects. Such scarcities make necessary relative larger numbers of ICA staff, as technicians, programmers and auditors.

In addition, the expansion of ICA programs to newly developing countries tends to emphasize project aid, which includes Technical Cooperation as well as a significant segment of other funds such as Defense Support, as compared with the commodity import program generally characterized as non-project aid. Project aid is the great user of ICA technical staff, since in project work, personnel must be employed as technicians to work with, and train host country technicians; perform required contracting, procurement and training activities, and to screen proposed projects.

While the above information explains some of the factors which have accounted for the increase in personnel, it should be noted that more detailed information concerning personnel needs and specific justifications to support such requests are furnished to the Appropriations Committees of both the House and Senate each year during the hearings relating to the Mutual Security Appropriations Act.

The increase in personnel employed by the Department of Defense is primarily due to the number of additional military assistance advisory groups (seven) activated since January 31, 1954.

Moreover, subsequent to the Korean armistice, and the Indo-China settlement in 1954, U.S. commitments necessitated increased staffing for MAAGs Taiwan, Vietnam and Thailand. In the case of Korea, it was necessary to provide an increased personnel complement to administer the assistance rendered under the Military Assistance Program. The vast majority of the additional personnel involved for MAAG Korea are actually assigned to U. S. Tactical Commands there, but have in addition certain responsibilities to the Chief of Provisional MAAG Korea for carrying out their duties under the Military Assistance Program. Such personnel, therefore, have been included in the overall MAAG strengths for December 31, 1957 indicated above.

In addition to the number of MAAGs activated since January 31, 1954, the increase in indigenous personnel is also attributable to the policy of making maximum utilization of local employees in lieu of U. S. personnel. This results in substantial savings to the United States. In the case of certain MAAGs in the Near East, the MAAG must supply much of their own support services due to the absence of U.S. Tactical Forces in the country or the lack of facilities in the Embassies concerned, i.e., Vietnam, Thailand, Taiwan, Cambodia, Pakistan. This factor further increases requirement for indigenous personnel.

MAAG staffing is kept under careful scrutiny at all Defense echelons to insure that strengths are maintained at the minimum level required for the successful accomplishment of essential MAP functions. It may be pointed out that a 12.9% personnel reduction within the officially established MAAG program is being implemented during fiscal year 1958.

### QUESTION NO. 3

Eugene Castle alleges that Europe leans on the U.S. for participation in her home defenses and refuses to assume her share of the free world's burden in the Middle East, Southeast Asia, Formosa, and South Korea.

What are the relative defense expenditures of Europe and the United States as percentages of gross national product, as percentages of personal income, and as percentages of national budgets?

#### ANSWER:

In 1957 the European NATO countries are estimated to have spent about \$13.1 billion for defense, which represented 5.8 percent of their combined gross national product (GNP) of \$228 billion. The United States in the same year spent \$4.3 billion for defense, 10.2 percent of its gross national product of \$43.4 billion. The defense burden borne by the European NATO countries is brought out more clearly when it is considered that the average per capita GNP in these countries amounts to \$850, only one-third the per capita GNP of over \$2,500 in the United States.

We do not have available sufficient data on personal income in European countries to make a meaningful comparison of this figure with defense expenditures.

The United States devoted 60 percent of the Federal Government budget to defense in fiscal years 1957-1958. Percentages of NATO country central government budgets devoted to defense expenditures for fiscal years 1957-1958 are shown as follows:

Belgium-Luxembourg	16%	Netherlands	20%
Denmark	17%	Norway	21%
France	25%	Portugal	27%
Germany	26%	Turkey	32%
Greece	29%	United Kingdom	29%
Italy	21%		

We should point out that inter-country comparisons of defense expenditures as a percent of total national government budgets do not necessarily provide a true measure of relative defense efforts. The main reason is that differences among countries as to division of financial and administrative responsibilities between the national government and regional or local governments directly affects the size of the

total national government budget against which defense expenditures are measured. Thus, many functions, which in the United States are a responsibility of the state and local governments, are in Europe the responsibility of the national government. In the U. S., therefore, the size of the national budget would be proportionately smaller and the percentage of the defense contribution would accordingly be proportionately higher.

Except for Greece and Turkey, economic assistance has not been programmed for the above NATO countries since fiscal year 1955. Military aid to the European NATO countries since the beginning of the program in 1950 has amounted to about \$13.5 billion. Such military aid has declined steadily from a peak of \$3.2 billion in 1953 to \$1.3 billion in 1957. From 1950-1957, these countries themselves spent about \$88 billion for defense or \$6.50 for every \$1 of military aid provided by the U. S. In 1957, European NATO countries spent the equivalent of \$13 billion for defense, or \$10 for every \$1 of military assistance received.

No precise current data are available on Western Europe's contribution to underdeveloped countries. However, in a recent study made for the Senate Special Committee to study the Foreign Aid Program, Stuart Rice Associates estimated that during the years 1952-1955, Western Europe provided approximately \$4.1 billion of public bilateral foreign assistance to underdeveloped countries, or at the rate of over \$1 billion a year. This was apart from European contributions to multilateral agencies, and from their private investments abroad. It is believed that this rate of assistance has not changed materially.

#### QUESTION NO. 4

Are there any nations which openly pit the U. S. and the Soviet Union against each other in a bidding operation to purchase their allegiance?

#### ANSWER:

The answer to the question stated is no.

The availability or possibility of aid from the Soviet bloc undoubtedly has an effect on the attitude of some nations in their dealings with the U. S. regarding assistance. The primary concern of less developed and uncommitted countries is, generally speaking, to accelerate the development of their economies. To do this they must obtain assistance from more prosperous nations. We are confident that less developed countries would as a general matter prefer to obtain needed assistance from the U. S. or other free world sources. But if, or to the extent that, they cannot obtain from these sources the assistance which they believe they require to speed their development, many of them are prepared to consider Soviet offers of aid, and a number have, of course, already accepted such aid.

The U. S., on its part, has made clear to other countries that it is not "competing" with Soviet bloc offers and is not attempting to purchase allegiance. U. S. levels of aid are not determined by matching or outbidding bloc offers. They are determined through weighing a number of considerations, including the recipient country's needs in relation to various mutually agreed objectives, overall U.S. interests in relation to the country, and the availability of aid resources. The Soviet economic offensive in less developed areas, with its goal of economic and ultimately political control, is obviously one vital reason for the U. S. making assistance available to these areas. But such assistance would, in the absence of Soviet aid or offers of aid, be needed and justified to accomplish our objectives in supporting the free world. It is those objectives which we have been trying to accomplish since well before Soviet aid was started, not bloc aid offers, which are the controlling determinant of where aid is provided and in what amounts. Other countries, we believe, understand the position of the U.S. on this matter.

### QUESTION NO. 5

- (a) What percentage of the U. S. national debt is fairly attributable to foreign aid, military and economic?
- (b) What percentage is attributable to foreign economic assistance?
- (c) How much does this represent on a per capita basis to each citizen of the United States?
- (d) What was the per capita cost to U. S. citizens of FY 1958 foreign economic assistance?

#### ANSWER:

The public debt of the United States rose from \$252.3 billion on June 30, 1948 to \$270.5 billion on June 30, 1957, a net increase of \$18.2 billion. It is not possible to attribute any one part of the increase in the public debt to a particular type of expenditure of the Federal Government. It should be observed, however, that during the three-year period of heavy expenditures in connection with this Korean war, December 1950 to December 1953, the national debt rose from \$256.7 billion to \$275.2 billion. It is possible to relate Mutual Security expenditures to total Federal expenditures during the period and then pro-rate part of the increase to the Mutual Security Program.

(a) During the period from July 1, 1948 through June 30, 1957, total budget expenditures of the Federal Government were \$531.1 billion. For the same period, the cost of the Mutual Security Program (military and economic) was \$42.6 billion. On a pro-rata basis, the Mutual Security Program accounts for 8.0 percent of total Federal Government expenditures. On this basis, about \$1.5 billion of the total debt increase of \$18.2 billion is accounted for by the Mutual Security Program.

(b) Economic assistance (\$22.5 billion) accounts for 4.2 percent of the total Federal Government expenditures during this period. Thus \$760 million of the total debt increase of \$18.2 billion could be "pro-rated" to Economic Assistance.

(c) On this "pro-rata" basis, the debt increase for Economic Assistance would be \$4.42 on a per capita basis. (See Item (b).)

(d) The estimated expenditures for Economic Assistance for FY 1958 are \$1,500 million. The population of the United States is now estimated at \$173 million. Thus, the per capita cost of Economic Assistance for FY 1958 is \$8.67.

QUESTION NO. 6

Eugene Castle alleges that foreign trade is declining and that our reliance on a foreign aid program rather than on private initiative is the reason for this decline.

- (a) Has private foreign trade increased or decreased in the last few years?
- (b) What are the figures for each year?

ANSWER:

(a) Private foreign trade has shown a strong increase in recent years. The U. S. now sells substantially more of its products to foreign countries than they sell to us. The volume of these private U. S. sales to foreign countries, both of manufactured goods and farm products, has risen steadily and substantially (68%) over the past five years. This contrasts with an increase of 18% in total retail trade within the U. S. during the same period, indicating the rising importance of these growing foreign markets to continued expansion of the U. S. economy.

- (b) Private exports from the United States are as follows:

Calendar year 1953 . . . . .	\$10.5 billion
" " 1954 . . . . .	11.2 "
" " 1955 . . . . .	12.4 "
" " 1956 . . . . .	15.6 "
" " 1957 . . . . .	17.7 "

Private exports are computed as follows:

	<u>\$ Billions</u>				
	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Total U.S. exports . . . . .	15.8	15.1	15.5	19.1	20.8
Less: Military exports . . . . .	<u>3.5</u>	<u>2.3</u>	<u>1.2</u>	<u>1.8</u>	<u>1.4</u>
Total commercial exports	12.3	12.8	14.3	17.3	19.4
Less: Non-military government grants*	<u>1.8</u>	<u>1.6</u>	<u>1.9</u>	<u>1.7</u>	<u>1.7</u>
Private exports	10.5	11.2	12.4	15.6	17.7

\* From U. S. Balance of Payments in the Economic Report of the President, January 1958, U. S. Department of Commerce: 1957 Preliminary

U. S. imports during these five years were as follows:

Calendar year	1953	.....	\$10.9 billion
"	"	1954	..... 10.2 "
"	"	1955	..... 11.4 "
"	"	1956	..... 12.6 "
"	"	1957	..... 13.0 "

The Mutual Security Program has greatly contributed to this expansion of U. S. private foreign trade, rather than retarded it. By assisting in rebuilding war-devastated economies and in developing backward economies, this program has helped to strengthen the internal economic structure and the foreign exchange position of foreign countries so that they have been able to greatly increase their purchases of capital and consumers goods through private foreign trade channels and thus to become much better markets for United States producers. By helping free governments to resist Communism and to achieve security and orderly progress, this program has helped to create those conditions of stability and peace which are indispensable to durable and expanding private international trade relations. Also, it should be pointed out that the bulk of the economic assistance provided under the Mutual Security Program has consisted of the financing of purchases, made through private commercial channels, of goods and services from private U. S. suppliers. This has meant not only large-scale sales by private U. S. suppliers under the economic assistance programs themselves, but introduction of U. S. products in foreign markets and the establishment of trade relationships which stimulate further U. S. marketings abroad entirely outside the Mutual Security Program.

The following table lists some countries which have received U. S. economic assistance, and shows the increase which took place in purchases by those countries from the U. S. between 1948, the year in which the U. S. economic assistance program was started, and 1957, a year when economic assistance was no longer being furnished to any of these countries under the Mutual Security Program.

	<u>\$ Millions</u>		
	<u>1948</u>	<u>1957</u>	<u>Percent Increase</u>
Belgium-Luxembourg . . . . .	309	460	47%
Italy . . . . .	416	655	55%
Netherlands . . . . .	310	604	95%
United Kingdom . . . . .	644	1,077	67%

## QUESTION NO. 7

Eugene Castle states that the Marshall Plan was originally estimated to cost \$17 billion. He continues: "but those who conceived the first Marshall Plan did not intend that it should continue for 13 years and \$70 billion."

- (a) What was the final cost of the Marshall Plan?
- (b) What was its duration?

### ANSWER:

Mr. Castle's statement that the Marshall Plan, contrary to its initial conception, has continued for 13 years at a cost of \$70 billion is not correct.

The Marshall Plan program was the program of economic aid to Europe - designed to rehabilitate war-devastated economies - which was commenced in April, 1948 and which was concluded in June, 1951. The total cost of that program was \$12 billion - \$10.8 billion in grants and \$1.2 billion in loans repayable in dollars.

After the completion of the Marshall Plan program, the U. S. furnished defense support assistance to European NATO countries. This program - distinct from the Marshall Plan program - was essentially designed to enable these countries to undertake rearmament and defense efforts so as to contribute to free world defensive strength to counteract the Communist menace. It did so by providing the economic assistance necessary to sustain their economies under the burden of these defense efforts. The last year in which defense support assistance was programmed for European NATO countries was fiscal year 1955. The total cost of defense support for European NATO countries was approximately \$2.8 billion.

If Mr. Castle's reference to the Marshall Plan is taken to mean all non-military assistance under the Mutual Security Program including not only the Marshall Plan and defense support to European NATO countries but also all other non-military assistance to all areas of the world since the inception of the program, then the program to date has continued for about 10 years, not 13, and has cost approximately \$22.5 billion, not \$70 billion. If all military assistance is added to this figure, the total is \$42.6 billion.

## QUESTION NO. 8

Are any of our foreign aid dollars used to pay for luxury imports by the recipient countries?

### ANSWER:

Under ICA policies U. S. assistance may not be used for importing luxury items. ICA has taken careful steps to enforce these policies and thereby to make sure that this does not happen. These steps include: (1) the building up over the years of an internal administrative list of specific items classed as luxuries which in the absence of a demonstration of their essentiality are not eligible for ICA financing (2) a careful system of end use checks or checks on the actual use to which U. S.-financed imports are put (3) an arrival accounting system operated either by the U. S. or by the host government which in turn makes reports to us and (4) a system of penalties for any infraction of the policy against luxuries under which the U. S. money so used is recaptured.

Charges of this sort are made from time to time because observers learn of certain imports but do not learn of the use to which they are put. For example, one might make this charge about air conditioners or cameras. But it is apparent that an air conditioner is not a luxury where laboratory work requires rigid temperature control. Similarly, what may appear under the label "camera" is not a luxury item if it is a specialized type of industrial photographic equipment. These are two actual examples of charges which have been made. This kind of charge frequently occurs also when the observer learns of the existence within a country of luxury items and makes this charge without learning that, in fact, no MS funds were used to finance its import.

Obviously, no administrative system can prevent mistakes. This is particularly true where, as required by law (as well as sound principle) we make maximum use of private trade channels. But if an unauthorized use is made of ICA funds, the aid country is obliged to make a refund of such funds to ICA. As of Jan. 31, 1958 over \$8,000,000 had been received by ICA from aid countries as refunds of amounts improperly spent for luxury or unessential goods.

Even in the uncommon cases, where because of the need to secure foreign local currencies quickly, ICA has transferred dollars directly to the aid country (as where local currency for troop pay has been required before commodity imports could generate the amounts required), a control system has usually been established to prevent purchase of luxury goods with the dollars transferred. Although in such cases the dollars are no longer the property of the U. S., the aid country has formally agreed not to spend them for luxuries and has permitted an ICA representative to sit with the Government's import control body which enforces this agreement. In those rare cases where the control system has not operated to prevent the purchase of luxury goods, ICA has taken additional steps to correct the situation and prevent additional purchases of non-essential goods.

### QUESTION NO. 9

Eugene Castle alleges that some nations spent our money for a multitude of unwanted and unneeded and wholly unsuitable public works projects.

- a) Is this true?
- b) What is the procedure utilized in selecting a project eligible for foreign aid?
- c) What voice do we have and what voice does the recipient nation have in the selection and evaluation of projects?

#### ANSWER:

a) This criticism is certainly not true. Of course it is so generalized and sweeping as to defy a specific response. Such an answer would require knowledge of which projects, in which countries, financed by which U.S. money Mr. Castle has in mind and in what particulars he believes them unwanted, unneeded and unsuitable.

Procedures developed by ICA and its predecessors make highly unlikely the expenditure of funds for any unwanted, unneeded and unsuitable project, not to speak of multitudes of them. No ICA project, in public works or of any other kind, is even started unless and until specifically and formally requested by the cooperating country. So it can hardly be "unwanted". Actually, each proposed project represents the cooperating country's judgment as the most desirable out of many desirable activities, all fiercely competing for the limited aid funds available. In addition, in almost all cases the country itself must finance the bulk of the project cost from local currency resources, including counterpart funds, which are very short in relation to a multitude of competing needs. When, as frequently happens, the U.S. assistance is on a loan basis and must be repaid, another factor militates against expenditures for "unwanted" projects.

The likelihood of a project being "unneeded" or "unsuitable" is likewise remote in view of the screening which project proposals receive before they are approved. These procedures are described in (b) below.

It must be conceded that it is possible that in the course of supporting scores of public works projects in dozens of countries over a period of more than ten years ICA and its predecessor agencies may have supported a few projects which some people with the benefit of hindsight might now consider undesirable. Such cases are likely to be ones

associated with a "crash" program which ICA or its predecessors have been required to take for urgent political and economic reasons, such as the Iranian crisis of 1952. In any case where ICA has determined that a public works project is not wholly suitable, ICA has taken vigorous action to correct the situation and to maximize the project's utility.

b) While specific ICA procedures for reviewing proposed projects vary somewhat with the particular type of funds involved, projects generally go through the following steps before they are approved for financing with any funds controlled by ICA:

- 1) The cooperating country proposes the project and requests U.S. assistance;
- 2) The ICA mission in the cooperating country reviews the proposed project for its desirability, economic and technical feasibility, and cost. Where sufficient technical or economic data is not available, a special engineering or other survey may be required.
- 3) When the ICA mission is satisfied the project is sound, it submits it to ICA/Washington for further review and approval. This review is carried out by U.S. economic and technical staffs, by specialized agencies of the U.S. government, or by private firms under contract to ICA, as necessary.
- 4) Only when the project has successfully passed this total screening is it approved for financing.
- 5) At this stage a project agreement is signed between ICA and the cooperating country, specifying the details of the project and the contributions which each party agrees to make to its cost.
- 6) ICA technical staffs in the field and in Washington follow up on the implementation of the project to see that it is carried out in a satisfactory manner and in accordance with the agreement.

This standard procedure is followed in cases of projects financed by defense support or special assistance funds under the Mutual

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Security Act. A somewhat less elaborate review procedure characterizes projects financed from counterpart funds or PL 480 local currencies. In the case of counterpart, the funds legally belong to the cooperating government and ICA's review of proposed expenditures is understandably not as intensive as where U.S. Government funds are expended. In the case of PL-480 funds, the projects are in most cases financed on a loan, not a grant, basis, and ICA review depends upon the degree of consent given by the country in the underlying surplus agricultural commodities sales agreement. These agreements customarily require ICA review and approval of the specific projects but it has not been feasible to secure from a country purchasing our surplus agricultural commodities under PL-480 consent to the same elaborate procedures for project review as they accord in the case of Mutual Security assistance funds.

As a sidelight to the matter of review procedures, a serious question has thrust itself upon us whether ICA's present review processes are not too intensive and extensive. Some critics maintain that Soviet assistance programs make less demands upon countries for information and project review, and that, consequently, they are both less irritating to the nationalist pride of sensitive nations and more expeditious in operation than the U.S. programs.

c) The foregoing description of procedures indicates the framework in which projects are developed. The general aim is to secure that development on a fully mutual and cooperative basis.

QUESTION NO. 10

Eugene Castle alleges that we are giving \$48 million annually to pay for pensions for overaged Chinese soldiers. Is this correct?

ANSWER:

The ICA has neither set up nor financed a pension program for overaged Chinese soldiers.

In 1954, the Chinese Government requested assistance from the United States to meet its urgent need for a program to increase the combat efficiency of the Chinese military forces on Taiwan by removing and replacing with fresh recruits some 80,000 overaged and disabled servicemen who came from the China mainland with President Chiang Kai-Shek. Such assistance was an essential part of a joint Chinese-United States effort to increase the combat effectiveness of the armed forces on Taiwan. The release of the combat ineffectives to the civilian community would make them refugees in a sense as they had no family, home or relatives to whom they could turn for assistance. Most lacked skills or crafts of the type to permit them to support themselves in civilian life. The magnitude of this problem was such as to be beyond the financial capabilities of the Government of the Republic of China.

After due consideration of the factors involved it was concluded to be in the interests of the United States to make available a total sum of \$48 million of Mutual Security funds to help the Chinese Government not in setting up pensions, but rather in carrying out a positive program to find productive and permanent solutions to the problem. Accordingly, \$6 million was allocated to the military assistance program administered by the Department of Defense for expenses connected with equipping and training the young replacements, and \$42 million were economic aid funds made available by ICA. The \$42 million includes the local currency element of the project cost. The funds administered by ICA are being used principally for two types of projects: (1) productive activities such as highway construction and forestry development by which the able-bodied soldiers are being converted into self-supporting civilians and (2) provisions of hospital and other facilities for the treatment of the sick and disabled. The program was approved and initiated in 1955 and it is currently anticipated that by June 30, 1958 U.S.-financed support of the program will have been substantially completed within original budgetary estimates. There are no plans to request additional U.S. funds for this purpose.

## QUESTION NO. 11

An allegation has been made that we handed over \$1 million to bolster the Pakistani fishing industry. Is this correct?

### ANSWER:

Through June 30, 1957, ICA obligated \$1,275,000 toward improving Pakistan's fishing industry. The average national diet in Pakistan is 2,125 calories per day, of which only 10% is proteins, and therefore the exploitation of the fishing industry is extremely important in improving the welfare of the populace.

In East Pakistan alone fish and rice are the main diet of 45,000,000 people. Two hundred thousand fishermen are dependent directly upon fisheries, and unknown thousands are indirectly dependent. The industry is now in a primitive condition, but there is the natural potential to produce the millions of pounds of fish needed by the local population.

The major portion of the ICA assistance has been for the development of the Karachi Fish Harbor. This has included technical advice in dredging the harbor and reclaiming approximately 47 acres of land, the furnishing of equipment and supplies not available in Pakistan, and U. S. training for Pakistanis. The fish harbor when completed will include such structures as an auction market, ice plant, drying sheds for nets, boat repair shops and allied facilities. Some of these structures have been completed and are already in operation, others are in the process of construction and others are still in the planning and designing stage. It is expected that when the harbor is in full operation it will provide employment for approximately 5,500 people. Present plans call for completion of the facilities by December 31, 1959. The fish processed at Karachi Fish Harbor are for domestic consumption. Other related activities in the program are assisting mechanization of the fishing fleet, demonstrating equipment and technique, and providing nylon twine for improved nets.

Pakistan undertook to furnish local labor and supplies needed for this program and its contribution to the necessary financing was \$2.9 million through June 30, 1957.

QUESTION NO. 12

It is alleged that we have 200 U. S. engineers building a military highway in Vietnam which has no military value.

- a. Is it correct that 200 American engineers are so engaged?
- b. What is the military value of the highway in question?

ANSWER:

This statement is incorrect.

ICA is contributing funds to the construction of two highway segments in Vietnam. The first, running from Saigon to Bien Hoa (31 kilometers) is the main north road out of the capital (Route 1). It is heavily traveled and is of great economic and strategic importance.

The second road (Route 21) is the 160-kilometer stretch from Ban Me Thuot to Ninh Hoa, providing road communications with new resettlement villages which have been established by the Government of Vietnam to insure settlement of the area by loyal Vietnamese who will resist infiltration by Viet Minh agents. The Government of Vietnam has stressed the importance of these settlements and the connecting roads (including Route 21) to the defense and internal security of the country.

The U. S. decision to assist Vietnam in the construction of highways has always been based on the urgent need to rehabilitate the war-damaged road system for the purpose of improving Vietnam's defense potential, contributing to internal security, and providing a basic ingredient for economic progress. Completion of the highway system will facilitate rapid movement of the Vietnamese armed forces and the civil police.

A U.S. engineering firm and a U. S. construction company are in charge of engineering and construction on both Route 21 and Route 1. Total engineer personnel (including engineer types and including not only U.S. but all non-Vietnamese) employed on the highway projects by both companies has never exceeded approximately 70. In addition to engineers, there are employees of management, administrative, and operational character. The number as well as the types of non-Vietnamese personnel who may be engaged on the highway projects is subject to ICA approval which is based upon a review of personnel needs to meet project objectives.

QUESTION NO. 13

- (a) Are we financing the planting of wild grass shoots along public highways in Lebanon?
- (b) If so, why?
- (c) What is the value of this project?

ANSWER:

(a) We have contributed the services of a technician and the use of two tractors to a project involving the planting of wild grass shoots along a Lebanese highway.

(b) The purpose of this project was to prevent movement of sand. The highway in question runs from Beirut to the Khalde airport. Winds from the sea were blowing sand over the highway from adjacent dunes. This sand movement constituted a serious traffic hazard, not only to highway traffic but to incoming aircraft as well. It is estimated that annual labor costs of removing sand from the road were \$16,000. It was considered that this was a worthwhile project to further by contributing technical guidance and equipment.

(c) The project as a whole cost approximately \$4,000. ICA's contribution consisted of the part-time services of one technician and use of two tractors, both in the area in connection with other ICA-financed projects. The government of Lebanon provided the other equipment, fuel, lubricants, grass shoots and labor.

Although this was not treated as a separate ICA project, the work done was highly successful and nearby countries have drawn upon Lebanese experience to tackle similar dune control problems. This is an excellent example of the sort of incidental assistance which is possible within an aid-receiving country at little or no additional cost to the U. S.

QUESTION NO. 14

"In Iran we imported machinery and equipment of all sorts valued at \$25 million. Three years later the International Cooperation Administration was still trying to find out where it had all gone, where it then was, and who had it." (a) Is this correct?

ANSWER:

There is no question but that some mistakes were made in the selection of equipment appropriate to Iranian conditions in the early days of the Iranian program. The program was on a crash basis in an effort, conceded to have been successful, to prevent a nation with a common border of 1200 miles with Soviet Russia from falling into the Communist abyss. On the other hand, some of the unused equipment is explainable by the fact that it was laid up waiting for spare parts after being damaged in shipping. Of the "machinery and other physical assets . . . scattered in such a way that no one as yet has been able" to find it, all but two percent has been formally documented and accounted for. The remaining two percent is represented by property known to have been financed by ICA, but not identifiable against shipping documents. It is physically present in Iran and is presently utilized for projects by the Government of Iran.

QUESTION NO. 15

- (a) Have we undertaken the construction of expensive airfields in Afghanistan?
- (b) If so, what has been the cost?
- (c) Why have we built airfields?
- (d) What is the justification of the airfield when the rest of the transportation system is exceedingly backward?

ANSWER:

(a) and (b). We have undertaken the construction of one large airfield in Afghanistan. It is located approximately 12½ miles Southeast of Kandahar. \$5.9 million was obligated by the U. S. in June, 1956, for construction, materials, and equipment and for communications-navigational aids at Kandahar as part of an overall air project. The Government of Afghanistan had already, before it received any mutual security funds, planned the construction of the airfield at Kandahar and had spent approximately \$600,000 of its own funds for grading and compaction.

(c) and (d). The United States has provided assistance to air development, including airfields, in Afghanistan because air development is believed to be an essential and economical first step in helping the economy of Afghanistan. The Civil Aviation Program, under which the United States will help Afghanistan expand its airlines system and improve its Department of Civil Aviation was requested by the Government of Afghanistan, and initiated in June, 1956. Through June 30, 1957, a total of \$14.7 million had been obligated for the program. As a result of the development of the international airport at Kandahar, U. S. commercial planes have begun to link Afghanistan with the other countries of the free world. A management contract already in operation has helped the Afghan airline operate scheduled flights for an expanding volume of traffic. And as a further and important result of this U. S. assistance, Afghanistan has already been able to strengthen its internal political and economic cohesion in a manner similar to the experience of Latin America, whose transportation problems closely parallel those of Afghanistan, and which, like Afghanistan, have very difficult terrain problems. Moreover, at this time when the Afghan airlines have operated domestic and international scheduled flights for nearly a year, both freight and passenger traffic have exceeded all expectations; revenues have increased substantially; and exports of Karakul and Afghan carpets have been greatly facilitated. The net advantage to the Afghan economy is clear.

It is fully recognized that it is important also to develop

land transportation in Afghanistan, and substantial efforts have been made to do so; including assistance in surveying the highway system, in providing training in highway maintenance, in improving the highway maintenance organization, and in the establishment of motor maintenance repair shops. But many difficulties have arisen in making such assistance effective, and it is recognized that it will be a slow process before this assistance will have the necessary impact in the Afghanistan economy. In these circumstances, simultaneous assistance to air development seems unavoidable.

QUESTION NO. 16

The allegation has been made that we have provided electronic microscopes in regions of the Philippines where no power is available for their use. Is this correct?

ANSWER:

Two electronic microscopes were procured for the Philippine program. Use of one of the microscopes was delayed due to lack of power at the time of its arrival. The problem was rectified thereafter and the microscope was put to effective use.

The second microscope was procured in 1953 for the Alabang Serum and Vaccine Laboratories of the Department of Health of the Philippine Government and power was available at that location to put the instrument into effective use on its arrival.

The facts concerning the first microscope are as follows: In 1951 the Philippine Government requested, and the then ECA approved, the procurement of one electronic microscope for use in plant research at the College of Agriculture of the University of the Philippines at Los Banos.

The procurement of the microscope was considered essential for the study of virus diseases, especially of coconuts, which is a serious problem in the Philippines. Although it was known at the time of procurement that there was no dependable source of power at the College to operate the microscope, the Philippine Government assured our Mission that arrangements would be made for the College to connect onto the power line which was furnishing power to Manila. It subsequently developed that the Philippine National Power Company was unable to obtain the necessary capital to extend their power facilities in order to furnish dependable power to Los Banos and surrounding communities. Faced with this difficulty the Philippine Government and our mission concluded that the most economical and practical alternative was to build a small generating plant for the College in order that it could supply, and be assured of, dependable power for all its facilities, including the electronic microscope, rather than relying on the then used commercial source whose equipment was rapidly deteriorating. Generators were procured by ICA for the plant and the College thereafter generated power for its facilities and equipment including the microscope as well as the contiguous new Forest Products Laboratory and the College of Forestry which also are ICA projects.

QUESTION NO. 17

Does the return of assets to Germany and Japan have any relationship, remote or close, to the foreign aid program?

ANSWER:

The return of assets to Germany and Japan has no such relationship.

Presumably this question is based on the current issue concerning return of assets originally held by German and Japanese nationals. The situation regarding these assets is as follows. During World War II the U. S. blocked and later confiscated German and Japanese assets in the U.S. The White House issued a press release last summer which stated that it would transmit to this present session of Congress its legislative proposals with regard to these assets. At no time has it been proposed that return of these assets be treated as a form of assistance to any foreign government.

Aside from military assistance, Germany is no longer receiving any aid and there is only a small technical assistance program in Japan.

QUESTION NO. 18

Eugene Castle has stated that we are now expected to pay Germany for the cost of maintaining the British and French armed forces now on duty there. Is this correct? If so why are we doing it?

ANSWER:

We are not now paying, nor have we agreed to pay Germany or anyone else for the cost of maintaining British and French armed forces in Germany.

There has been recent protest by Great Britain that due to Germany's refusal to pay troop support costs these costs were creating a foreign exchange problem for Britain. Britain believes she is bearing an unfair share of the burden of maintaining NATO military strength. France has also voiced informal complaints along the same lines. A committee of experts agreed that the cost of maintaining troops in Germany was causing Britain a foreign exchange problem. The German Government has suggested that to relieve Britain of this burden other NATO countries contribute to the cost of maintaining her troops in Germany. No further action has been taken with respect to this problem. Behind this proposal lies the question of equitable distribution of mutual defense costs.

QUESTION NO. 19

Highways and bridges are being built in foreign lands while our own road system has been neglected for many years.

ANSWER:

During the period July 1, 1954 to November 30, 1957, the U. S. Government financed highway improvements and development in aid receiving countries in the amount of approximately \$133,000,000.

For calendar year 1954 \$5.7 billion dollars were expended for new highway construction in the United States.

## QUESTION NO. 20

It has been alleged that the United States undertook the building of a highway in Thailand for \$6 million and that this highway has already cost \$18 million for half of the originally planned stretch. Is this correct? What are the circumstances surrounding the construction of this highway?

### ANSWER:

U.S. support of the Northeast Highway project in Thailand was undertaken in 1954 on an urgent basis when Communist Viet Minh troops penetrated to the Northeast Thailand border and it appeared there was grave danger that neighboring countries, especially the former Indochina States might fall to overt Communist aggression and subversion. Initially, the highway was conceived as a strategic road to the NE so that Thai forces could more effectively use tanks and other vehicles furnished as U.S. military aid, to defend the area in the event of hostilities, while at the same time the great economic importance of the road was recognized.

The semi-arid Northeast of Thailand to be served by this road is relatively isolated, economically depressed, and vulnerable to subversion. The road forms a main link in the vital transportation route from the Port of Bangkok to landlocked Laos. The linking of Bangkok to the NE with an all-weather road is of very high priority in the improvement of Thailand's communications. Already remarkable new economic activity is resulting as the road penetrates into the heretofore underdeveloped NE. Agricultural diversification and processing is essential to the development of economic self-sufficiency in Thailand and the NE is the key area in this regard.

Because of the grave military situation existing when the project was initiated, it was considered necessary to start road construction quickly before completing detailed engineering studies and cost estimates. In lieu of such studies, it was arranged that detailed engineering would proceed concurrently with the construction.

At an early stage a preliminary cost figure of \$6½ million (plus a \$1 million Thai contribution) was suggested, based on generally unchecked Thai data. However, before ICA undertook to contract for any construction, an engineering reconnaissance survey was arranged in order to secure more realistic figures. This survey was not and did not purport to be a detailed engineering study with precise cost estimates. The survey estimated a cost of \$21 million for a 200-mile highway consisting of two principal parts: a first 100-mile stretch involving completely new construction through difficult terrain; and a second 100-mile section, largely involving bridge repair

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and the rehabilitation of an existing road, and therefore being the less expensive half of the project. On the basis of these reconnaissance figures it was decided initially to undertake only the first 100-mile stretch.

The cost of constructing this 100-miles is proving greater than the estimates made in the initial 1954 reconnaissance survey for the following reasons:

- a) Design criteria were revised upwards upon the advice of the Department of Defense.
- b) There has been a continuing general world-wide increase in construction costs since 1954.
- c) Part of the highway was relocated.
- d) In addition, certain cost elements, such as quantities of earth and rock to be moved, were underestimated in the reconnaissance survey.

It now appears that this first 100-mile stretch will cost about \$22 million when completed in mid-1958.

This project is considered fundamentally sound in concept and execution.

QUESTION NO. 21

Have we provided dress suits for Grecian undertakers under the foreign aid program?

ANSWER:

Procurement records in Greece show no aid-financed procurement of clothing of any kind with the exception of footwear for the Army. Civilian clothing, as a matter of U. S. and Greek policy, has been ineligible for U. S. aid financing in Greece since the inception of the aid program in Greece.

QUESTION NO. 22

Have we financed public baths for Egyptian camel drivers?

ANSWER:

ICA has provided funds to assist a cooperative rural health demonstration center at Shubra Mont, in Egypt. The project included public baths as part of the health center. Although the project commodity procurement schedule, which describes the commodities being bought with the U.S. dollar contributions to the project, does not include public baths, some of the commodities procured could have been used in connection with building the baths.

There is also included as part of the Egyptian-American rural improvement service projects a project for village improvement in the Abis area. This project which was financed from a joint U.S.-Egyptian joint fund provided for the construction of a building combining baths and a laundry.

Neither of these projects was specifically designed to provide facilities for camel drivers. However, it is obviously possible that the facilities could have been used by camel drivers. This is particularly true of the Shubra Mont project, which is located just off a well-traveled road to Cairo.

The inclusion of public bathing facilities in these two projects results from the fact that Egyptian villages customarily have public bathing facilities, and from the further fact that such facilities are frequently no more than drainage ditches, the use of which has sometimes led to the development of bilharzia. A project designed to encourage and improve health and sanitation standards would therefore necessarily include public bathing facilities.

It should be pointed out, furthermore, that technical cooperation projects have for some time included public bathing facilities in health projects.

QUESTION NO. 23

Have we provided free airplane rides for thousands of Arabs to visit Mecca?

- a) If this is true, what are the justifications?
- b) Did the U. S. derive any benefits from this project?
- c) What were the nationalities of the Arabs so transported?

ANSWER:

a. The U. S. Government has provided transportation for pilgrims to Mecca on two occasions:

1. The first instance did not involve ICA or its predecessor agencies or the use of any MSP funds. In August 1952, the Lebanese Government appealed to the U. S. Embassy in Beirut for help to provide emergency transportation for pilgrims who were stranded in Beirut on their way to Mecca. This appeal occurred on August 22. The pilgrims had to be at Mecca by August 29 to fulfill the deeply-felt religious purpose of their journey. Local airlines had oversold tickets on the normally scheduled and special flights that were to take Moslem pilgrims from all over the Moslem world to Mecca in time for the yearly pilgrimage ceremonies. When it was found that private American airlines could not fill the gap, the Department of State consulted with the Secretary of the Air Force, and it was determined that Air Force transport planes could be made available. Over 3,000 pilgrims were transported by the Air Force. These pilgrims were not given free trips. They paid full commercial fares in Lebanese pounds. The funds so collected were distributed to Moslem charities. At the time it was made clear to the Lebanese Government that the U. S. Government could not be expected to repeat such a humanitarian operation in the future and it was impressed on those responsible that adequate planning for commercial transportation had to be undertaken during future pilgrimage seasons.

2. In June 1956, at the request of the Government of Afghanistan, the United States, under the Mutual Security Program, supplied an airplane to the official Afghan airline to help transport Moslems from that country on their pilgrimage to Mecca. These Moslems also were not provided with free trips, but paid their own way in Afghan currency.

b. Both of these projects resulted in increased good will in the Moslem world for the United States. In the case of the 1952 airlift from Beirut, the fact that the United States had come to the rescue of stranded Moslem pilgrims received considerable publicity in the Middle East and brought a grateful response from numerous prominent Moslems, many of whom had previously been hostile to the United States. The airlift also demonstrated to the people of the area the capabilities of the U. S. Air Force in an unmistakable manner.

As for the 1956 Afghanistan project, the provision of transportation for pilgrims to Mecca is an important function of the Government of Afghanistan, which it must perform in order to meet the expectations of the Afghan people. United States assistance to the Afghan Government in fulfilling that function at a time when the Government air transport system was inadequate to the task demonstrated the friendliness of the United States and thus helped to dispose the Afghan Government favorably to the West. It also provided an important stimulus to the Afghan air transport system, a project to which the United States was planning to provide and is now providing economic assistance.

c. In the case of the Beirut airlift, the pilgrims stranded in Beirut were primarily of Turkish, Iranian, and North African origin. The Moslems assisted in Afghanistan were mostly of Afghan nationality (not Arabs).

QUESTION NO. 24

Are foreign aid funds being used to send operatic singers to Western Europe, weight lifters to the Middle East, and jazz bands to Latin America and the Far East?

ANSWER:

No.

Some tours abroad by creative and performing artists and athletes from the United States are being assisted by the Department of State under the express authority of Public Law 860, 84th Congress. They are not a part of the Mutual Security Program and are not administered by ICA.

QUESTION NO. 25

It has been alleged that the Philippines could live and prosper without one American foreign aid dollar.

- (a) What is the economic situation in the Philippines?
- (b) What would occur if all American aid were to be withdrawn?

ANSWER:

While a more effective use of its resources would benefit its economy, the Philippines cannot meet both its present defense and development requirements without external assistance.

(a) Currently, the economic situation in the Philippines is at its worst since 1949, when an economic crisis resulted in the Philippines request for aid from the United States. Due to falling prices of exports and a heavy demand for imported consumer goods, the Philippines' foreign exchange position deteriorated seriously during 1957. Foreign exchange reserves at the end of 1957 amounted to approximately \$140 million, less than three months' import requirements at the average monthly import rate that year.

Since most of the Philippine people live only a little above a bare subsistence level, government revenues are derived largely from customs duties and excise and sales taxes. These revenues are insufficient to defray the costs of essential government operations, thus necessitating deficit financing of important public works and military installations, with inflationary results. The present situation is such that foreign investors are loath to invest in the Philippines and domestic capital is hoarded or used in speculative activities.

(b) The ICA Defense Support-Technical Assistance program for the Philippines, reduced to \$19 million this year from a \$33.9 million program last year, is concentrated in support of military construction and rural development. The effects, if the present ICA Defense Support-Technical Assistance program were terminated, would jeopardize goals of specific interest to the U. S. Military construction would probably be substantially curtailed and the rural development program, on which much of the U. S.'s past aid has been focused, would deteriorate. Lack of the programmed military facilities would not immediately affect the economy but would delay the development of the military strength of an important ally.

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Retrenchment in the Philippine Government's rural development program would risk a resurgence of discontent in rural areas, a problem with which the Philippines, with U. S. aid, was beginning to make substantial progress. Without the pesos derived from the sale of U. S. surplus agricultural commodities (half of ICA aid to the Philippines takes this form) the Philippine Government would either have to curtail these activities, reduce other essential government activities or further increase its budgetary deficit. Curtailment of other government services would increase the danger of instability and any increase in deficit financing would intensify inflationary pressures in an economy facing a serious economic situation.

It is true that U. S. aid to the Philippines is small compared to that country's gross national product of \$5 billion. It is also true that U. S. aid will not solve all the problems of Philippine defense and development and that the primary job must be done by the people of that country, who in some ways could be doing that job more effectively. However, it is also true that:

1. the problems of Philippine defense and development are not easy ones;
2. a primary purpose of U. S. aid has been to stimulate the Philippines to make the most effective use of its resources in tackling these problems and
3. without U. S. aid the rate of economic development in the Philippines, the growth of governmental, financial, and educational institutions needed to improve economic and social conditions, and the construction of needed defense facilities would have been much slower.

QUESTION NO. 26

"Do we conduct a knitting school with foreign aid funds?"

ANSWER:

ICA does not, insofar as we can determine, conduct a knitting school with foreign aid funds anywhere in the world. We do under the technical cooperation program support projects of a home economics and cottage industry nature which involve teaching of sewing.

This kind of "charge" is particularly difficult to deal with because of its failure to specify the type of activity involved or where in the world it might be.

After a diligent search, the only activity which ICA can discover which may have given rise to this charge, is a project in Korea which is operated entirely with private funds by the Church World Services, a distinguished American humanitarian organization. This activity was designed to assist impoverished Korean war widows to earn a living by knitting and other sewing. It has been assisted by the wives of American diplomatic and ICA personnel in Korea, on a voluntary basis.

It seems particularly unfortunate that such a charitably-inspired and worthwhile voluntary effort should be misinterpreted and held up to ridicule.

QUESTION NO. 27

Do we underwrite modern art exhibits with foreign aid funds?

ANSWER:

No.

Some activities of this general character are financed by other agencies of the Government under legislative authority which is entirely separate from the Mutual Security Program.

QUESTION NO. 28

Has a survey of flower reproduction been financed with foreign aid funds.

ANSWER:

Mutual Security funds have not been used in connection with a survey or the growing of ornamental flowers. We know of only one case where we have financed a project involving a plant which could reasonably be mistaken as ornamental. That involved experimental growing in Latin America of Kenaf which is a member of the hibiscus family. It is a jute substitute valuable for string, rug, yarn, and burlap and is considered a strategic material. The only substantial sources of supply at present are India and Pakistan.

ICA policy would permit the financing of flowers where they have an industrial or agricultural use. Where the flower is ornamental, even though it may have economic value, either as a foreign exchange earner or in the development of local markets, we would not finance any project involving it. We have refused to finance ornamental flowers on a number of occasions. Late in 1954, for example, we refused the request of one government that we help replace the rose collection of an agricultural experimentation station which was destroyed by flood.

The Agricultural Research Service, using Department of Agriculture, not Mutual Security, funds does survey and investigate ornamental flowering plants in various parts of the world as part of its regular research activity. This has nothing to do with the Mutual Security Program. Perhaps it was such a survey that gave rise to the above question.

QUESTION NO. 29 (KOREA)

It has been alleged that merchants in ~~Vietnam~~ <sup>Korea</sup> have profited as a result of the disparity between the official exchange rate and the actual rate for ~~Vietnam~~ <sup>Korean</sup> currency.

- a) Has this not resulted in a waste of foreign aid funds in that the local currency proceeds to the U.S. from the sale of our goods have been lower than they should be?
- b) Have local merchants in fact profited?
- c) What has been the extent of these windfall profits?

ANSWER: (All three parts of this question are being answered together because they are closely interrelated):

The Korean Government, with the advice and assistance of the U.S., has taken several measures which have had a salutary effect in reducing opportunities for windfall profits by importers. These profits, the amount of which can not be readily determined, did for a period reduce somewhat the effectiveness of the ICA commodity import program in combating Korea's chronic inflation. However, during 1957, although the windfall profits had not been fully eliminated, inflation was brought under control.

The situation that gave rise to windfall profits, and the measures taken to deal with the problem, are described below.

It must be noted, at the outset, that profiteering by Korean merchants was not, and is not, involved in a substantial part of the U.S. aid program, such as the supplies and equipment imported for government projects, including power plants, rehabilitation of railroads, etc. In addition, major portions of non-project imports are distributed through government channels, reaching the ultimate consumer at prices equivalent to, or only slightly above, the official exchange rate plus the cost of distribution.

The problem of excessive profits grew primarily out of a major shift from government to commercial procurement undertaken in mid-1956 in order to stimulate private business and investment and improve the distribution of imported commodities. While the exchange rate had been raised in August 1955 from 180 to 500:1, the prices of many commodities continued to advance, permitting importers to realize considerably more than the 500:1

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paid by them for the dollar allocations provided from U.S. aid. This resulted in windfall profits on commodities such as artificial fibers, paper, medicinals and others, for which demand greatly exceeded the supply.

While further adjustment of the exchange rate would have reduced, if not eliminated, the windfall profits, the Korean Government has consistently aimed at avoiding new devaluation as inflationary. Instead, with the aid of the ICA Mission, the Korean Government has attempted to meet the problem of windfall profits in other ways. First, it increased initial down payments which importers were required to make when applying for dollar allocations. However, prices and profits continued to rise, and competition among importers for dollar exchange became so keen that available funds for certain particularly desirable commodities were heavily oversubscribed. The Government then for a period awarded the dollar exchange available for the import of these commodities by the drawing of lots, a system which did not succeed in eliminating profiteering and was further criticized as fostering gambling and speculation. Finally, in the spring of 1957, the Korean Government, at ICA urging, adopted a system of awarding the dollar allocations for commodities in greatest demand on the basis of the highest offers for the purchase of government bonds over and above the basic payment of 500 hwan per dollar. Since this system, too, has certain unsatisfactory features, the Korean National Assembly is now considering a bill, drafted with the assistance of an ICA tax consultant, which would replace the bond purchase system with a special excise tax on aid dollar allocations to importers. Meanwhile, efforts continue to improve and expand the bond purchase system through administrative action.

QUESTION NO. 29(VIETNAM)

It has been alleged that merchants in Vietnam have profited as a result of the disparity between the official exchange rate and the actual exchange rate for Vietnam currency.

- a) Has this not resulted in a waste of foreign aid funds in that the local currency proceeds to the U.S. from the sale of our goods have been lower than they should be?
- b) Have local merchants in fact profited?
- c) What has been the extent of these windfall profits?

ANSWER: (All three parts of this question are being answered together because they are closely interrelated.)

Under the conditions presently prevailing in Vietnam, importers have little or no opportunity to earn windfall profits from the sale of imports financed by the U.S.. During the early years of the U.S. aid program, some windfall profits did accrue to commercial importers of saleable commodities financed with U.S. assistance. These import profits, the amount of which cannot be determined, represented to some extent a waste of U.S. aid funds because local currency which otherwise would have been available to the U.S. and the Vietnamese Government for agreed purposes was diverted into private channels. However, since early 1957, control measures have so changed the situation that windfall profits have been almost entirely eliminated.

The background facts are as follows:

In 1955 and 1956, the internal financial and monetary situation in Vietnam was extremely unsettled owing to the civil war with the sects, the need to provide for a very heavy influx of refugees, and the inexperience of the newly formed Vietnamese Government grappling with the unstable political and economic situation. Under these conditions, the pressure of internal monetary inflation and the lack of confidence in the piaster generated very strong demand for imports.

The Vietnamese Government was concerned about the excessive demand for imports and the windfall profits to which this situation gave rise and, therefore with the advice of the ICA Mission, sought a means of dealing with the problem. In the fall of 1956, the government introduced price controls and legally-imposed profit margins on the sale of imported commodities. The government decided against modifying the exchange rate but did proceed by substantially increasing taxes on imports (imposed early in 1957), to increase

the number of piasters yielded by each dollar of ICA-financed commercial imports. Import levies, on the average, now yield 18 piasters per dollar value of aid imports. Thus, a Vietnamese importer actually pays (and the Government of Vietnam actually receives) 53 piasters for every dollar's worth of imports. In this sense, one can say that the "effective rate" of exchange for imports in Vietnam is 53 to the dollar, rather than the official rate of 35 piasters to the dollar.

As a result of the additional taxes imposed, and of measures taken by the Vietnamese Government since late 1956 to combat internal inflation, it seems quite clear that the Vietnamese importers are at present not generally benefiting from profit windfalls. In fact, it is likely that certain importers are actually incurring losses under present conditions. There may be a few isolated import commodities for which demand still outruns supply, and the USOM has therefore suggested to the Vietnamese Government that even larger excise taxes be imposed on certain imports in order to limit demand and further reduce profit margins; motor scooters may be a case in point.

To give an example of how the present taxes on imports operate, take the case of tobacco, a commodity for which the "effective" exchange rate is much higher than for the average product. Every dollar's worth of leaf tobacco imported into Vietnam is subject to a 20 percent customs duty. However, the taxes imposed in March of 1957 must then be added, i.e., a 50 percent Stabilization Tax (calculated exclusive of customs) and a 25 percent Production Tax (calculated inclusive of customs and Stabilization Tax). Thus, in the case of tobacco, a dollar's worth of tobacco actually costs the Vietnamese importer over 74 piasters, as compared with the official rate of exchange of 35 piasters.

### QUESTION NO. 30

The allegation has been made that 20 locomotives were shipped to Korea in such a way that the transportation cost far exceeded that of another available means of shipment.

What was the justification for ICA's action in shipping these locomotives via the West Coast in small groups rather than using a group shipment from the East Coast?

#### ANSWER:

Actually funds were saved by shipping these 20 diesel locomotives from the Pacific Coast as they became available from the manufacturer. This method of shipment was selected by ICA as in the best interests of the U. S. Government after calculation of all factors involved. It is true that the cost of ocean freight would have been cut approximately \$130,000 if shipment of the entire block of 20 locomotives had been delayed for about one and one-half months until the last locomotive was ready for shipment from the East Coast. However, the resulting delayed delivery of the locomotives to Korea would have deprived the Korean National Railways, which is supported by the U. S. aid program, of savings in fuel costs of almost a quarter of a million dollars. Actually over \$115,000 net was saved by the earlier staggered delivery of locomotives approved by ICA.

The saving in fuel cost of almost \$250,000 is computed as follows: Advanced delivery by fast liner from the West Coast placed the locomotives into operation a total of 404 locomotive days ahead of group shipment from the East Coast via the Panama Canal. The 20 diesel locomotives shipped replaced 91 outmoded, overaged, coal-burning steam locomotives with a resultant saving in fuel costs of over \$600 per day attributable to each diesel from the time it was placed into operation.

The shipment of locomotives arranged by ICA accomplished, in addition to the foregoing significant savings, the utilization of U. S. flag instead of foreign flag vessels. The staggered shipments were all made on fast U. S. flag liners. A group shipment would have been possible only on a specially equipped foreign flag tramp vessel since no U. S. flag vessel exists capable of carrying a cargo of 20 locomotives.

QUESTION NO. 31

Is our military assistance equipment being used by Trujillo to keep the people of the Dominican Republic under dictatorial domination?

ANSWER:

The military assistance equipment provided by the United States to the Dominican Republic amounts to a small fraction of the \$30 million which that country annually expends on its military forces. The U.S. equipment is limited to support items, principally spare parts and ammunition, and training for the navy and air force of the Dominican Republic.

The Dominican Republic has an agreement with the United States for the purchase of military equipment. It also has made purchases of military equipment and supplies in a substantial amount from other countries.

The United States obviously favors a democratic form of government but is not in the position to insist that other governments conform with this preference. To accomplish the objectives related to the security interests of the U.S., it is important that the U.S. continue to plan in conjunction with friendly nations the military defense of the hemisphere.

QUESTION NO. 32

Was our military assistance equipment being used by Perez Jeminez to keep the people of Venezuela under dictatorial domination?

ANSWER:

Venezuela, as a result of its huge oil income, is capable of purchasing and does purchase with its own funds from other world sources, material and equipment required for its armed forces.

It has an agreement with the United States for the purchase of military equipment. It also has made purchases of military equipment and supplies in a substantial amount from other countries.

The United States obviously favors a democratic form of government but is not in the position to insist that other governments conform with this preference. To accomplish the objectives related to the security interests of the U.S., it is important that the U.S. continue to plan in conjunction with friendly nations the military defense of the hemisphere.

QUESTION NO. 33

Do we give any economic assistance to the Dominican Republic?

ANSWER:

The only economic assistance now given to the Dominican Republic is a small technical cooperation program in rural and vocational education. It is carried out through a joint Servicio which is staffed by ten U. S. technicians and 114 Dominican technicians and employees.

In addition to the program now in existence, there was a small cooperative health program from 1944 to 1948 and a cooperative agriculture program from 1952 to 1956. Beginning with fiscal year 1952, the following figures represent the total amounts expended each year for all economic assistance to the Dominican Republic:

<u>Fiscal Year</u>	<u>Amount Expended</u>
1952	\$212,000
1953	360,000
1954	167,000
1955	336,000
1956	265,000
1957	156,000
1958 (to 12/31/57)	82,000

QUESTION NO. 34

Have any local currency funds belonging to the U.S. or any counterpart funds been used for debt retirement?

ANSWER:

1. No local currency funds belonging to the U.S. have been used for debt retirement.

2. Prior to enactment in 1953 of the provision against use of counterpart for foreign government debt retirement, the following amounts of counterpart owned by cooperating countries were released for debt retirement in situations where such release was regarded as necessary for purposes of internal monetary and financial stabilization in accord with objectives of the Economic Cooperation Act of 1948.

<u>Country</u>	<u>Amount in millions</u>
Austria	\$ 85.0
Denmark	130.1
France	171.4
Netherlands	197.4
Norway	292.7
United Kingdom	1,706.7
Total	<u>2,585.3</u>

3. Since 1953, except as permitted by statutory authority, there has been no debt retirement use made of counterpart, the deposit of which was required by statute. In 1954 counterpart subject to the ban on debt retirement became an amount equal to "proceeds to the recipient nation from the import or sale" of certain grant aid in place of the previous "commensurate" value. In 1956 the ban on use of counterpart for debt retirement was limited by the following proviso:

"Provided, however, that to the extent that funds have been borrowed by any foreign government in order to make a deposit of counterpart and such deposit is in excess of the amount that would be required to be deposited pursuant to the formula prescribed by section 142(b) of the Mutual Security Act of 1954, as amended, such counterpart may be used in such country for any agreed purpose consistent with the provisions of such Act."

In Korea, where an exception to the statutory requirement for counterpart deposits has always applied, an amount equivalent to the value of grant aid to the public sector of the economy (from which no actual proceeds accrue) is borrowed by the Korean Government from the Bank of Korea, deposited in the counterpart account, and subsequently withdrawn and repaid to the Bank of Korea. This bookkeeping arrangement serves to provide a full accounting for all grant aid given and not just that portion of aid generating actual sales proceeds. In addition, despite the special statutory exception for Korea, the U.S. and Korean governments have agreed that an amount in the counterpart account equivalent to actual proceeds net of import duties be made available for the purposes of counterpart. This amount is treated as ineligible for debt retirement.

QUESTION NO. 35

There have been reports that foreign aid funds were used for the erection of frozen orange juice plants in Italy. How many Italians have facilities to store frozen orange juice?

ANSWER:

No Mutual Security funds have been used to finance the construction of frozen orange juice plants in Italy.

We estimate that, at most, ten percent of Italian households own refrigerators. Of these only the latest models permit storage of frozen foods. However, as far as we know the market for the frozen juice is composed largely of hotels, restaurants, hospitals and the like rather than individual consumers.

QUESTION NO. 36

There have been repeated reports that public works and industrial projects have been undertaken in foreign countries without adequate engineering and economic surveys having been conducted.

- (a) What is the practice of the U. S. in this respect.
- (b) What steps have been taken to insure that such surveys are adequate?
- (c) What personnel are available in Washington to insure adequacy and efficiency of projects undertaken?
- (d) Does this latter group have sufficient voice in the administration of the program?"

ANSWER:

(a) The normal present practice of ICA with respect to proposed public works and industrial projects to be financed with direct ICA grant or loan funds (apart from the Development Loan Fund, which is discussed in A,3 below) is as follows:

1. A project proposal form giving full details of the suggested project is prepared by the U. S. Operations Mission in the country concerned, on the basis of information supplied by the officials of the cooperating government or private entity requesting assistance, supplemented by on-the-spot checks by appropriate technical personnel of the USOM.

2. This proposal is accompanied by any engineering and economic survey reports bearing on the project which have been made. In some cases, such as Korea, ICA assists cooperating countries in retaining U. S. engineering firms on a continuing or special contract basis to make such surveys.

3. The Project Proposal and accompanying data is reviewed by the technical and economic personnel of the USOM and is not forwarded to ICA/Washington unless the USOM is satisfied with its technical and economic soundness.

4. Project Proposals forwarded by the USOM are intensively reviewed by the appropriate Technical Services Division of ICA/Washington (see (c) below for a description of the resources available for this purpose).

5. If the ICA/Washington review indicates any questions about the project, the USOM is requested to supply further information.

6. Whenever it appears that satisfactory engineering and economic survey studies are not available to support the project, ICA requires that a competent engineering firm be retained to make a special survey of the economic feasibility, engineering soundness, location, etc. of the project.

7. Only when a project is deemed fully sound on the basis of these reviews and surveys will ICA normally approve it for financing.

8. Once a project is approved it is ICA's practice to assist the cooperating country in retaining a competent engineering firm to undertake the detailed design of the installation involved; to prepare detailed invitations for competitive bids on actual construction; and to supervise actual construction.

9. Progress reports on all capital projects are required to be made periodically to ICA's engineering department in Washington, and reviewed and concurred in by the firm responsible for the engineering. The design engineer is also responsible for the inspection of construction and acceptance of the plant and facilities as being built and equipped in conformity to the approved drawings and specifications. USOMs are required to follow the job in the field, and ICA/W representatives inspect the more complicated projects on a periodical basis.

In rare cases where there are urgent political or economic considerations necessitating especially rapid action, ICA may agree to finance a project before all of these normal documentation and review procedures have been carried out. In such cases ICA takes such steps as seem reasonably necessary under the particular circumstances in order to assure, before the project gets under actual construction and during the course of its implementation, that the project is technically sound and that it is carried out effectively. [

A standardized procedure for projects to be financed from the new Development Loan Fund is now in the final stages of preparation and has not yet been put into effect. It is expected to embody elements of both the ICA procedures described above and of the procedures followed by the Export-Import Bank for similar projects. ICA and the Export-Import Bank will render technical and other services to the Fund in connection with loan applications.

(b) ICA has taken a number of steps in recent years to tighten up its procedures in this respect and to improve its staff and facilities available for review of such projects. This action has been based on increasing recognition of the need for intensified activity on this aspect of the program, particularly as its geographic emphasis has shifted from the more developed countries of Europe, which have a high level of engineering and economic competence of their own, to the less developed countries which lack such facilities. ICA's predecessor agencies followed somewhat less systematized and less rigorous procedures than those described above.

Specifically, the following steps have been taken:

1. Technical and economic staffs in USQMs abroad have been progressively strengthened.
2. Increasing use has been made of survey and engineering contracts of the types described above.
3. A full-time separate engineering staff in ICA/Washington was created in 1955.
4. The services of this staff have been supplemented by a continuing contract with a major U. S. engineering firm to provide engineering and economic reviews which are beyond the resources of ICA's own staff.
5. The standardized procedures for documentation and review of proposed projects, as described above, were instituted about three years ago.

(c) The personnel available in ICA/Washington to assure adequacy and efficiency of projects undertaken includes:

1. The services, as required, of the whole complement of economic and technical personnel in ICA/Washington which numbers several hundred people, with various types of technical and economic specialization and experience.
2. The services of a full-time industrial Engineering Division which includes 15 engineers and business analysts.
3. The engineering services of a leading independent consulting firm on a retainer basis, under a contract with ICA/Washington. The services of eight full-time engineering personnel and sixteen special engineering consultants were utilized under this contract during fiscal year 1957.

4. Under a series of interagency agreements ICA also receives technical review and similar services from other U.S. government agencies which have specialized technical competence, such as the Bureau of Public Roads, the Bureau of Reclamation, the U. S. Department of Agriculture, etc.

5. In addition, ICA employs special consultants on particular problems or projects from time to time.

(d) ICA believes that the technical personnel available to it now have a sufficient voice in the administration of the program. The above-described procedures and practices cannot, of course, give assurance that mistakes have not occurred or will not hereafter. In complex projects like these in foreign countries where technical and other factors are often involved that are not encountered in the U. S., and with the necessity for judgments balancing the need for prompt action against the need for double-checking of technical details, errors can obviously take place.

QUESTION NO. 37

The charge has been made that United States bulldozer operators in Cambodia received \$20.25 an hour with all living expenses paid in an American Compound and no income tax.

- a) Is this correct?
- b) What is the rate of pay for a bulldozer operator in Cambodia?
- c) What additional compensation in the form of living expenses or other expenses do they receive?
- d) Are they subject to income tax?

ANSWERS:

- a) No.
- b) The hourly rates of U.S. bulldozer operators in Cambodia are fixed by the contract between the contractor and the Cambodian Government at \$3.00 minimum and \$3.25 maximum based on a 40-hour week with overtime paid at the rate of 1-1/2 times the hourly rate. Operators completing 18 months contracts receive a bonus of 10% of basic salary earned. Operators completing 12 months contracts receive a bonus of 5% of basic salary earned. The operators receive 12 days vacation and 10 days sick leave per year.
- c) They are furnished food, laundry, and quarters at the contractors' camps without charge.
- d) They are subject to the same U.S. income tax regulations and tax liability as any U.S. citizen (other than a U.S. Government employee) working overseas. Such persons are generally exempt from liability for U.S. income taxes for periods during which they remain outside the U.S. a minimum of 18 months.

QUESTION NO. 38

The charge has been made that the United States is not undertaking any new reclamation projects this year but that such projects will be undertaken under the foreign aid program.

- (a) Is this correct?
- (b) How can it be justified?

ANSWER:

- (a) Yes.
- (b) One of the purposes of the Mutual Security Program is to give economic assistance to the less developed countries of the free world. A major problem in many of these countries is the neglect and exhaustion of soil resources over the centuries plus inadequate development and conservation of water resources. Since these countries are dependent primarily on agriculture for their livelihood, it would not be possible to improve their living condition without land and water resources programs. These projects are deemed necessary if these countries are to attain or maintain economic and political stability, which is in the security interest of the United States.

QUESTION NO. 39

In most official accountings of the foreign aid program P. L. 480 (Surplus Agricultural Commodities) transactions are not taken into account.

- (a) Why are P. L. 480 transactions excluded from most ICA accountings?
- (b) Is not the furnishing of surplus agricultural commodities foreign aid?
- (c) Does it not meet the same needs as those met by our foreign economic aid?

ANSWER:

(a) In some of the accountings required on the foreign aid program, it is obviously not appropriate to report P. L. 480 transactions. However, in many of the reports on ICA activities designed by ICA, transactions under P. L. 480 are fully reported. Indeed, ICA has gone to considerable effort to account fully for the relevant P. L. 480 Title I transactions. For example, in the Congressional Presentation last year, ICA carefully projected its best assumption of FY 1958 P. L. 480 Title I sales in the key countries. Again this year that information is being made available in the Congressional Presentation books for the FY 1959.

(b) If by "foreign aid" it is meant (and we believe this is the proper interpretation) that it performs a role which in its absence would have to be done with Mutual Security appropriations, then in some cases it is "foreign aid" in others it is not. There are three distinct situations: (1) In some countries, of which Korea and Pakistan are examples, some sales of commodities under P. L. 480 are the equivalent of mutual security program dollars. ICA has a careful programming procedure to identify such cases and to reduce the MSP request correspondingly. (2) In Brazil and Finland, on the other hand, it cannot be counted as "foreign aid" because, without it, it is unlikely that we would provide economic aid under the Mutual Security Program (other than possibly technical assistance). (3) In still other countries, the picture is mixed: Without P. L. 480 there would be a requirement for more mutual security dollars. However, whether the U. S. would undertake to help meet that requirement with mutual security dollars is a very different question which is difficult to answer. It is quite likely that if we did furnish additional MS aid, it would be in amounts that are much smaller than is possible under P. L. 480.

(c) As indicated above, it does in certain cases and in others it does not. Wherever it does meet the same needs as those for which economic assistance is given, the requests for appropriations for such economic assistance have been correspondingly reduced.

QUESTION NO. 40

Is not the major portion of the local currencies made available to us under PL 480 available for the same purposes as our regular foreign aid funds?

ANSWER:

This is not accurate. The funds made available to mutual security agencies from PL 480 transactions can be used only to pay for the local costs of economic or military activities whereas mutual security funds are needed to pay for the imports of resources into the recipient countries to be used in or to support economically certain economic and military activities. Thus, although the stated purposes of PL 480 currencies are similar in many respects to certain purposes set forth in the Mutual Security Act, the similarity between these currencies and mutual security (dollar) funds does not exist as an economic fact.

PL 480 sales transactions are in some cases the equivalent or the partial equivalent of Mutual Security dollars. But the point at which the transaction has its real economic value is when the commodities under PL 480 are delivered, not when the local currencies are used. The availability of surplus agricultural commodities under PL 480 has been taken into account in the determination of what dollar funds are requested from Congress.

QUESTION NO. 41

Do our Diplomats and Government officials have counterpart and local currencies available to them for expenditure without regard to the Government accounting laws?

ANSWER:

No.

Counterpart and local currencies owned by the U. S. Government may be expended only for purposes authorized by U. S. laws and are fully accounted for as subject to U. S. accounting laws. Members of the United States Congress have available to them for their local currency expenses for official travel, local currencies owned by the United States. These are accounted for in accordance with procedures determined by Congress. As to local currencies owned by foreign governments, the United States Government participates in the decision as to the manner of expenditure of such currencies in two types of cases. The first involves counterpart. General agreements with aid countries customarily provide that the aid country may expend counterpart only for purposes or projects approved by U. S. representatives and contributing toward the objectives of the aid program. The second type of case involves trust accounts. These arise from agreements by an aid country to deposit certain amounts of local currency in an account beneficially owned by the foreign government but administered directly by U. S. representatives to pay certain types of agreed costs of the aid program. These funds are accounted for and audited under procedures applicable to U. S. funds and any of such funds not required for the purpose of the trust are returned to the host government.

QUESTION NO. 42

The charge has been made that those countries who receive less from us have made the greatest economic advances.

- (a) Is the allegation that those who receive the least aid are making the most rapid strides correct?

ANSWER:

This statement implies that those countries who received less aid made the greatest economic advances because they received less aid. This is incorrect. Countries which have received large amounts of aid, notably those of Western Europe with this help, have made recoveries and advances that are outstanding.

### QUESTION NO. 43

It has been alleged that there has been corruption in our aid to Korea involving defective merchandise, kickbacks, and overpricing. What are the facts with respect to these charges?

#### ANSWER:

The criticism relates to certain malpractices in the commodity import program which led to a number of procurement irregularities such as the shipment of defective merchandise, kickbacks and overpricing. However, the criticism is more broad and sweeping than the underlying facts would justify.

Certain background information might be helpful in understanding the nature of the problem. Based upon a statutory mandate contained in the Mutual Security Act of 1954, it is ICA's policy to encourage procurement by the cooperating country, particularly procurement through private commercial channels. The result of this policy is that ICA is essentially a financing, rather than a procurement agency. Because of this fact a system was devised in an attempt to insure that aid funds would be expended in an orderly efficient manner, and that the obligation and responsibilities of parties involved in aid financed transactions would be clearly defined. Regulation 1 is the legal statement of that system and of the obligations and responsibilities of those parties. It recites the rules with which cooperating countries, importers, suppliers and banks must comply when transacting business under authorizations to use ICA funds. The terms and conditions of Regulation 1 are made binding upon cooperating countries through their incorporation by reference in each Procurement Authorization issued by ICA which is required to be accepted in writing by the host government. In accordance with Regulation 1, the host government runs the risk of having a refund imposed by ICA if a transaction is ineligible for ICA financing. In addition, each supplier who furnishes commodities under ICA programs is required to file a Supplier's Certificate, a form devised by ICA, in which the supplier recites certain required data regarding the transaction and in which he certifies among other things, that the price he has charged is no higher than the United States market price, that he has not paid or received any "kickbacks", etc. If his certificate is incorrect he is subject to a demand by ICA for refund of the excess paid, or is subject to other corrective action.

Because we are financing thousands of private transactions between exporters and importers, and because we are not parties to the contract, it is always possible that some of these transactions may turn out to be objectionable. It is the view of the Agency that the remedies it has provided are sufficient to protect the Agency's interest.

It is believed that the procurement irregularities which occurred in Korea in the import of saleable commodities were the product of a variety of factors, such as, laxity by the Bank of Korea in the allocation of aid dollars, inexperience of Bank of Korea personnel with procurement methods and regulations, the incentive of high profits to both legitimate merchants and speculators resulting from material shortages and the exchange rate, and the desire of Korea businessmen for capital export. These problems have engaged the attention of ICA officials in Washington and the field for some time. In July 1956 a team of four men was sent to Korea to inquire into the background of transactions for aid goods involving shipments of goods forfeited by importers and others. The inquiry was later expanded to include a review of transactions involving other than forfeited shipments.

The inquiry disclosed some evidence of procurement irregularities such as overpricing; inflating of prices to enable the payment of kickbacks to importers and agents; "dummy" importers; shipments of inferior merchandise at inflated prices; concealment of commissions. Demands for refund have been made upon the Korean Government and suppliers, when appropriate, and thus far ICA has received approximately \$900,000 in refunds. (Some of the information obtained by the team is still in the process of verification.) However the documented evidence of malpractices represent a very small percentage of ICA financed commodity procurement.

As a result of studies undertaken with regard to this matter certain corrective measures have been adopted to minimize, or, where possible, to eliminate these abuses. Such measures include:

1. Establishment of a Saleables Review Committee in our Mission in Korea to review the purchase of ICA commodity dollars to determine the legitimacy of the importers receiving dollar awards, the essentiality of the commodity or commodities to be procured and the competitive character of the prices paid.
2. Setting up a Procurement Advisory Group within the Bank of Korea which takes active part in the conduct of all ICA commodity dollar auctions.
3. Increasing Controller personnel and intensifying efforts with regard to end-use investigations.
4. Establishment by the Korean Government of a special bureau for review and observation of the procurement of ICA-financed

commodities. This Bureau maintains close working relationships with the Office of the Economic Coordinator and acts as a supplement to OEC's controller end-use investigations.

5. An advisory team has been set up within the Korean Government Office of Supply for the purpose of assisting that office in developing accounting, warehousing and other controls with the view to eliminating pilferage and other abuses in the area of its responsibility.

In addition to the above, the Korean Government is taking steps to prosecute firms and individuals who have committed violations of ICA and Korean Government procurement regulations.

QUESTION NO. 14

It has been alleged that the United States Government financed a 6-lane 15-mile highway from Lisbon to the gambling resort of Estoril. Is this correct?

ANSWER:

This statement is not true.

No U.S. aid dollar funds or counterpart have been used for highway construction anywhere in Portugal. The 6-lane highway referred to was built by the Portuguese Government and was financed by it from other sources. It was opened to traffic some six months before any counterpart funds were released to the Government of Portugal.

QUESTION NO. 45

It has been charged that foreign aid funds built an Italian village in which no one wishes to live. Is this correct?

ANSWER:

The charge is not true.

It has been made many times before.

Presumably the reference is to the new village of La Martella, built in the province not far from the old city of Matera, in Southern Italy, which was comprised of notorious cave dwellings. A number of the peasants of Matera lived in caves under wretched conditions. The caves were not owned by them, but rented. The rehousing project in the new village was undertaken by the Cassa per il Mezzogiorno, the Italian "Fund for the South" and was undertaken as a part of a large project of land reclamation and resettlement aimed at improving living standards in Italy's poverty-stricken South. No dollar funds were used. About 22 percent of the funds for this massive Italian effort were provided from the counterpart funds. Approximately \$1.9 million in lire equivalent were approved for the La Martella project.

Actually these funds were not sufficient to eliminate cave dwellings entirely, but the worst of them were evacuated by resettlement. The new village of La Martella provided housing for peasants close to the land they worked.

Some of the people had to continue to live in caves because the new village could not accommodate all of them. The new village is definitely inhabited, and is contributing to a significant increase in the output and living standards of the region.

It is worth noting that the land reclamation, land improvement and resettlement program carried out by the Cassa per il Mezzogiorno has been considered to be one of the outstandingly successful achievements in post-War Europe; that the La Martella rehousing project served as a demonstration which led to the enactment of Italian legislation for resettling of the entire cave population of Matera over a four-year period, with funds provided wholly from non-counterpart sources.

QUESTION NO. 46

Did the ICA finance the construction of a \$128,000 cow barn in Lebanon to demonstrate to farmers living on \$100 or less a year what they should provide themselves with in the way of cow barns?

ANSWER:

We believe this question refers to an animal husbandry project at the Lebanese Government agricultural demonstration and experimental farm at Terbol. This project, to which the United States and Lebanon both contributed, included (1) a dairy barn, cattle shed, fence, upright silo, trench silo, and barnyard, for which the United States contributed \$50,269 and the Lebanese Government the equivalent of \$43,000, and (2) the importation of farm equipment and of purebred Holstein cattle for upbreeding the local strain. The aggregate U. S. contribution to this project was \$99,934; the Lebanese Government contributed the equivalent of \$86,000 for its aggregate contribution to the project.

The animal husbandry demonstration has been effective in reaching Lebanese farmers, who have adopted new practices, been helped to improve their stock and how have increased production and are able to serve the existing market. In 1952, before this program began, there was one small dairy and one small milk plant in Lebanon. By mid-1957, there were six privately owned and financed pasteurizing plants in the Beirut area, supplying the market from the increased production made possible by the spread of this project. Through April 1957, approximately 2500 native Lebanese cows had been bred to the purebred bulls imported under the Technical Cooperation program and in addition Lebanese dairymen had themselves imported over 200 head of stock. The milk yield of the crossbred cows is more than double that of the original native breed. The animal husbandry demonstration at Terbol has not only affected the practices of large farmers who can adopt the most advanced construction and equipment; its most widespread impact has been among small farmers who have profited from the upbreeding of their cattle. Following practices demonstrated at the Terbol farm, they have improved forage and adopted the practice of feeding silage and built trench silos for their own use. For example, Anjar Village, where most of the production is from small farms with one to five cows, over a three-year period increased its daily milk shipments to Beirut from 70 pounds to two-and-a-half tons per day.

QUESTION NO. 47

Has our aid to Bolivia been used to service Bolivian payments on Export-Import loans?

ANSWER:

U. S. foreign aid funds have never been used to service Export-Import Bank loans. As of December 31, 1955, Bolivia's external debt, principal plus interest, totaled \$168.9 million. The Bolivian Government's budget for calendar fiscal year 1956 set aside \$505,000 to service the external debt. In recognition of the balance of payment and exchange problems being experienced by Bolivia, the Export-Import Bank revised the schedule of payments on loans to Bolivia. Under the terms of this agreement, Bolivia was permitted to reduce its service payments to the Export-Import Bank from about \$2,500,000 per annum to \$1,000,000 per annum during the calendar years 1957, 1958, and 1959.

It is true that when the United States gives financial assistance to any country, it can be said that the aid funds have the indirect effect of financing payment of the debts of the recipient country to the extent that the aid frees an equivalent amount of the country's own revenues for such payment. The only way in which this result could be prevented would be to require as a condition precedent to the giving of U. S. assistance a promise from the recipient country that it would default upon all of its outstanding obligations.

Some of the primary purposes of economic aid to Bolivia are to stabilize the economy, maintain political stability, and encourage the establishment of a free economy and the growth of private enterprise. The contributions made by the United States through Technical Cooperation, Special Assistance and its participation in the Monetary Stabilization Program have led to a marked improvement in Bolivia's overall economy. Inflation has been curtailed and the investment climate has improved to such an extent that foreign enterprise has taken an active interest in entering the country. It is hoped that by such assistance Bolivia will be able, through her own resources, to meet her foreign obligations and regain a status of recognized credit-worthiness.

QUESTION NO. 48

It has been alleged that we gave India \$1,539,000 worth of pre-fabricated steel to erect grain silos and warehouses in 1954. Meanwhile ICA approved a gift of an additional \$4 million for 600 more warehouses in spite of the fact that the Indians had not gotten around to putting up the original buildings. Is this correct? If so, why should we have given more warehouses when those already furnished had not been utilized?

ANSWER:

The original agreement to provide two silos and fifty prefab grain warehouses was signed in 1954. These 52 units were delivered over the period September 1955-February, 1956. When the additional \$4 million for grain storage units was agreed upon a few months later in April 1956, in anticipation of a large PL 480 grain import program, it was not apparent that Government of India plans for erection of the first 52 units would lag.

Prior to approving the additional \$4 million agreement, ICA specifically asked its mission for "evidence of progress in erection of structures previously authorized". The mission, before the second agreement was signed, replied that it had a "firm understanding . . . that project will be implemented rapidly".

Thereafter two factors delayed implementation: (1) Indian harvests did not maintain their 1954 level and grain consumption rates increased, making grain storage a less urgent problem for the Indian Government and requiring relocation of the planned storage facilities from the interior to ports to handle increased imports; (2) a variety of problems in erecting the units (site acquisition, locating the prefab warehouses at storage centers where wind pressures would not be too great, the new and complicated work required on the silos) continued to crop up.

Because "the assurances upon which the project was first approved have not been borne out by performance" the agreement for \$4 million in additional storage facilities was cancelled in 1957.

Our mission has continued to press for full utilization of the first 52 units. A progress report on erection of these units and 36 prefab storage units India purchased at the same time with its own funds indicates that one of the two silos is scheduled for completion this month, the location for the other has been settled, and that, as of November 1957, 11 of the prefab warehouses had been erected, 19 more should have been completed by now and all the rest are scheduled for completion this year except 4 which are being relocated.

QUESTION NO. 49

It has been reported that there are vast quantities of drugs in Laos (far more than Laos can ever use) and ICA has financed the procurement of these drugs and medical supplies. Is this correct?

ANSWER:

This statement is not true. The U. S. has financed the importation of drugs, but not in excess of needs. From the inception of the aid program to the Government of Laos on January 1, 1955, down to December 31, 1957, ICA funds totaling \$1,526,800 had been obligated for the purchase of drugs for Laos.

Expenditures (indicating deliveries) for the 3-year period totalled \$663,047. This means that ICA obligated for the purchase of drugs about \$1 per capita for the three-year period and that less than 50 cents per capita has been spent, for this purpose. These amounts are modest for a country the size of Laos with the health problems it faces. In fact, an ICA official who recently visited Laos noted that many medical establishments were in short supply of drugs and medical aids.

The above criticism is probably based upon observations of a Congressional Study Group which toured Laos in November and December, 1953 (See House Report No. 2025, 83d Cong. 2nd Sess.). Referring to the above criticism, Congressman Judd, who was a member of the Group, said before the House Committee on Foreign Affairs on June 24, 1957:

"That report came from me. It never was suggested that those were stores purchased by American funds. We never said that. Somebody added that on to it. We reported seeing the most fabulous collection of expensive hypodermic needles, antibiotics and everything else. But it was never suggested that it came from us - we were putting no American aid in at that time. This was a case where somebody had gone wild and used French money or UNESCO money or somebody else's money for it. It wasn't ours."

It is believed that the medical supplies which the Congressmen saw were those known to have been stored in a Government warehouse in Vientiane. These supplies had been stocked for the use of the French Union forces, including the Lao Army, which were actively fighting the Vietminh Communists at the time of the Study Group's visit to Laos.

Two former senior officials of USOM/Laos have verified that

such a warehouse did exist at the time of the Study Group's visit and had been stocked chiefly by the French Government for the purpose stated above. According to these officials, this warehouse served as the central supply point for medical supplies for all of the French Union Forces in Laos and for the entire civilian population of Laos. One of these officials stated that as of December 1956 all but a minor portion of these supplies had been used.

It should be noted that, at the time of the Study Group's visit, no ICA (or predecessor agency) mission or permanent representation had been established in Laos. At that time Laos was receiving only an insignificant amount of U. S. assistance through the U. S. aid program to the Associated States of Indo-China, and it is believed that this assistance did not include more than a token amount of medical supplies, if any at all.

QUESTION NO. 50

Is it true that we have paid the living expenses and tuition costs for the sons of wealthy Persians attending American universities?

ANSWER:

No.

This question appears to refer to the Iranian student project which covered the period 1952 through 1955, during which time the Mossadeg government fell, and the Iranian Government was in serious danger of economic collapse. At that time the Iranian Government was unable to continue providing the foreign exchange needed by Iranian students studying in the United States. There were approximately 800 Iranian students at that time studying in American universities. Without foreign exchange resources, virtually all of them would have been forced to terminate their studies and leave the United States. It was determined that the objectives of the MSP and of U. S. foreign policy objectives would be advanced if these students could continue their training, inasmuch as they constituted a major potential source of professional and technical personnel required by the economic development program in Iran. It was also known that Iron Curtain governments were prepared to offer grants to Iranians forced to discontinue their study in the United States, and did so to Iranian students studying in Europe.

U. S. financing was applied only to the dollar costs of the training, and, in exchange, Iranian local currency was made available to meet the local costs of the U. S. aid program in Iran. The families and sponsors of the Iranian students contributed local currency at an agreed rate of exchange, in lieu of foreign exchange; consequently, the program was not a scholarship subsidy to wealthy Iranian students.

QUESTION NO. 51

It has been reported that 200 plows and large numbers of tractors have been rusting away in Ethiopia and at the same time the U.S. was purchasing more plows and tractors for Ethiopia. Is this correct?

ANSWER:

This statement is an exaggeration.

The stocks of agricultural equipment left in Ethiopia by UNRRA and by the Italians when the British drove them out in 1941 included plows and tractors.

It was apparent to our Mission, when it was established in 1952 and was confronted with the deplorably primitive situation which existed in agriculture, that all possible use should be made of that equipment. Much of it, however, was entirely unsuitable for Ethiopian conditions. Moreover, it was in such poor condition, through mismanagement, lack of repair and inadequate storage facilities that it was unusable. To put it to use involved major and arduous efforts, including rehabilitation of the equipment, the training and supervision of Ethiopians for that purpose, impressing Ethiopian farmers with the disadvantages of their primitive methods and teaching them to use the rehabilitated equipment. This task was one of the first to which the Mission devoted its efforts. It called for cooperative U.S. and Ethiopian efforts, for which a joint Ethiopian-U.S. Machinery Pool Project was established in 1953. By 1954, these undertakings were well under way.

Success in these cooperative project efforts for improvement in the field of Ethiopian agriculture could not be achieved, however, without the purchase of a small amount of new equipment. Seven small wheel tractors for experimental station work, two disc plows and one crawler-type tractor were needed. These were acquired, not directly by the U.S. but by the Joint Fund - the Ethiopian Government making substantial contributions to defray the cost. There have been no direct U.S. purchases of either plows or tractors for Ethiopia under the U.S. program.

Commendable progress has been made and continues to be made in this joint effort for improvement in the field of agriculture in Ethiopia.

QUESTION NO. 52

It has been charged that the United States financed \$39 million in loans to complete two dams in Afghanistan, in order to produce electricity and water for reclamation. Today, it is alleged there is still no power equipment and no electricity has been generated.

- (a) Is this correct?
- (b) Why did the United States not make surveys of the economic requirements and of the feasibility of these projects before making these loans?

ANSWER:

(a) The Export Import Bank of Washington has made loans totalling \$39,500,000 to assist in completing the Arghandab and Kajakai Dams in the Helmand Valley area of Afghanistan which had already been begun by the Government of Afghanistan with the help of an American firm. These dams were primarily designed for irrigation and flood control purposes. At the time financing was approved, there were no plans for the initial installation of power equipment, and there is now no power equipment at either of these dams except for minor standby equipment at Arghandab. There is presently under consideration for financing from FY 1958 mutual security special assistance funds a proposal for 6400 kilowatt capacity at Arghandab.

(b) The United States did in fact make a survey of the economic requirements and of the feasibility of the Helmand Valley project before making the loans, which included the evaluation of a full report prepared by the American firm which had been working with the project.

QUESTION NO. 53

It has been alleged that in Greece Marshall Plan tractors rusted on the docks two years after arrival because the country couldn't absorb all the aid we insisted on giving them. Is this correct? If so, why were adequate surveys not made?

ANSWER:

The question appears to refer to tractors which were sent to Greece by UNRRA in early 1946. These tractors had no connection with ICA or its predecessor agencies. They were not used immediately because of the Civil War in Greece and because a number of the tractors were not usable in that country without certain modifications in their equipment. Eventually, however, the tractors were converted and were absorbed by the Greek economy.

**QUESTION NO. 54**

**Why has the United States spent money constructing highways for Jordan where there are fewer than 9,000 automobiles there?**

**ANSWER:**

The purpose of the Jordan highway program is to provide a basic stimulus to economic development in that country, and not just for the purpose of facilitating travel of automobiles presently in the country. Since the present railroad facilities in Jordan are extremely limited it must have highway transportation connecting the four areas of the country if it is to make any progress in increasing production and commercial activity. In addition, because of the establishment of the State of Israel, previous means of communication - mainly in an east-west direction - must be supplemented by north-south roads. One result of the road construction program has been to provide employment, thus contributing to political stability in that troubled area.

A total of 95 miles of good primary roads, 12 miles of farm-to-market roads and 76 miles of village access roads are under construction.

## QUESTION NO. 55

How can the U.S. justify the stimulation of production of agricultural products abroad while our own farmers are suffering from low prices and decreased acreage allotments and while the American taxpayer has to support the farmers through subsidies?

### ANSWER:

This question might be taken to mean (1) that U. S. farmers would be in a better economic position if foreign aid dollars were not used to stimulate certain agricultural production abroad and (2) that dollars used for such purpose in foreign aid could be better employed in improving the economic condition of the U. S. farmer.

As to the first point, it is unlikely that U. S. farmers would be better off if we did not attempt to stimulate foreign agricultural production. In the first place, our experience has been that the stronger a country becomes economically the more of our farm products it consumes. Secondly, it is ICA policy to finance only those agricultural projects which meet the test of not competing with U.S. exports. Agricultural projects in the underdeveloped countries receiving such aid are non-competitive with U.S. exports for a variety of reasons: the crop in question may not be surplus in the U.S.; need may be in excess of surplus supplies, or in excess of supplies we will sell for local currency, and, of course, most of these countries have a dollar shortage; the cost of exporting the commodity may be excessive; those who will benefit by the project may not have money to purchase needed food (in this connection, projects involving small scale production for home-use are an important part of our program). In any case, the contributions we make to agricultural development are directed toward the basic objective of making these countries capable of meeting needs which cannot be filled by imports from the U.S.

It may be noted with respect to U.S. agricultural exports that almost 30% of all mutual security assistance since the start of the program has consisted of agricultural commodities now classified as surplus virtually all of which were purchased in the U.S. (Sales and Grants under P.L. 480 are in addition to these amounts). Moreover, exports of U.S. agricultural commodities reached an all-time high in 1957 and have increased more in recent years than agricultural exports by other countries.

The second point, that our dollars would be better employed for improving the economic condition of our farmers than for increasing production

abroad relates to the basic concept of the Mutual Security Program. Aside from the question of what our domestic farm program should be one of the basic considerations behind the Mutual Security Program is that we do what appears necessary to avoid the risk of less developed countries of the free world becoming dangerously susceptible to Communist influences. This objective is in the security interest of the U.S. The agriculture of most of these countries is in a primitive state. They lack the most basic notions of soil conservation, diversification and production techniques. They are incapable of supplying their own most fundamental needs and are faced with rapidly growing populations. Agricultural assistance to such countries, we believe, strengthens them in a most direct way.

QUESTION NO. 56

A million dollars of our tax money is being used in Paraguay for the benefit of a single religious sect while such a practice would be frowned on as unconstitutional and contrary to public policy in our own country.

ANSWER:

Under the Mutual Security Act of 1956, ICA was authorized to make loans to Latin American countries for certain specified purposes, one of which was "such land resettlement programs as will contribute to the resettlement of foreign and native migrants in the area as a whole, or in any country of the area, for the purpose of advancing economic development and agricultural and industrial productivity".

Pursuant to this authority, agreement was reached in April, 1957 for a loan of \$1 million to the Government of Paraguay. That Government in turn agreed to lend \$1 million to the Mennonite Colonies for purposes of expansion, modernization and creation of small basic industries for the conversion of raw materials, and of expansion of agricultural production.

This project is an excellent example of land resettlement. The majority of the Mennonite Colonies are located in the Paraguayan Chaco, a vast underdeveloped land. The Mennonites were chosen for this resettlement project because they were the most effective major device through which resettlement in this area could be obtained. They were not chosen as a result of any desire on the part of Paraguay or ICA to assist any particular religious sect. As a matter of fact, the Government of Paraguay has for some time encouraged the Mennonite Colonies in many ways.

In addition to assisting in the general economic development of Paraguay, this project has the following specific beneficial results:

- (1) Through the building up of small industries financed by this loan, additional markets are created for the produce of non-Mennonite farmers as well as those who are members of the Mennonite Colonies.
- (2) Part of the loan is being used to finance the activities of an experimental farm and to finance seed production. These facilities are available to all settlers in the area including non-Mennonite settlers.

The Mennonite Colonies are obligated to repay the loan to the Government of Paraguay over a twenty-year period in local currency of Paraguay together with interest at the going rate applicable in Paraguay. The Government of Paraguay is to repay the U. S. over the same twenty-year period in either its own currency or in dollars, the interest rate being 3% for those repayments made in dollars and 4% for those made in local currency.

QUESTION NO. 57

Did we spend \$2 million to provide water and public bath facilities for 200 Lebanese villages?

ANSWER:

We did spend \$2 million to provide water facilities for about 175 Lebanese villages but spent nothing for public bath facilities.

The United States has contributed about \$2 million of materials, supplies and equipment for water supply improvements in about 175 villages under a program for which the Lebanese Government itself has spent more than \$7 million. In FY 1957 and 1958, under the technical cooperation program, ICA is furnishing one engineer to advise the Lebanese on engineering phases for their expansion of this program.

The village water supply program in Lebanon is part of that country's own development program. It is a by-product of the Litani River Basin development project, the first phase of which is being financed by an IBRD loan of \$27 million.

The village water supply improvement program is an undertaking of the Lebanese Government primarily to improve the standards and living conditions for the Lebanese people by providing Lebanese villages with safe drinking water supplies. A particularly important result is the encouragement this gives to the village people to stay in their villages rather than move to Beirut and Tripoli and thus worsen the slum conditions in these urban centers.

Although five village wash houses have been provided by the ICA Mission and two by the Government of Lebanon, to furnish facilities to village women for the washing of clothes, no public baths have been built either by villagers or by the United States in connection with this project.

QUESTION NO. 58

"Did we furnish collapsible toothpaste tubes to Cambodia?"

ANSWER:

A thorough investigation of ICA records, both at Washington and at Phnom Penh, reveals no collapsible toothpaste tubes have been imported into Cambodia under the U. S. aid program since establishment of the Cambodia aid mission in FY 1955. Furthermore, the Cambodian Government, on the basis of its official customs records, indicates that imports financed by Cambodia's own foreign exchange included no collapsible toothpaste tubes in 1956 and 1957 and only \$6.00 equivalent of this item in 1955.

QUESTION NO. 59

Have we furnished ice boxes to Eskimos?

ANSWER:

No. Eskimos are only found in Alaska, Canada, the Chukcley Peninsula of northeast Siberia, and Greenland. No aid programs have ever been instituted in the first three places. Greenland is a colony of Denmark, and Denmark has received assistance under the mutual security program. However, no assistance has ever been sent from the U. S. to Greenland, and no ice boxes or refrigerators have ever been sent to Denmark under the aid program.

QUESTION NO. 60

Is it not true that a plant was built in Formosa for processing silica prior to adequate surveys having been undertaken?

- (a) Why were economic surveys not made prior to furnishing the equipment?
- (b) Has any production ever resulted from the plant?

ANSWER:

It is believed that the criticism is with reference to a project undertaken to assist the Chinese Government in the rehabilitation of, and the furnishing of equipment for, a treatment plant for concentration and finishing of mica and quartz products. In connection with this project ICA approved a loan of local currency from Chinese-owned counterpart amounting to approximately \$40,000 for local costs of rehabilitating the plant and ICA contributed approximately \$37,000 for machinery and equipment for the plant. The project was approved based upon the technical evaluation of an American engineering firm employed by the Chinese Government. The firm's evaluation was based on previous studies indicating that there were sufficient deposits of mica to justify undertaking the project.

Extensive exploration subsequently failed to locate sufficient quantities of mica for a commercial mining operation. The equipment which had already been installed in the plant was then adapted to use in pulverizing talc and limestone. In accordance with ICA procedures the Chinese Government was requested to and did refund \$18,323.03 which was the value of equipment not utilized on the project. The major portion of this latter equipment consisting primarily of a diesel driven generator has been diverted to other productive uses in Taiwan.

QUESTION NO. 61

How can the U.S. justify furnishing assistance to a country where the king lives in Oriental splendor surrounded by his Cadillacs and his harem?

ANSWER:

The inference of the question is that because of the substantial wealth the King of Saudi Arabia derives from oil revenues we should not negotiate with him in order to achieve mutual security program objectives.

The United States has maintained important and special relations with Saudi Arabia since World War II when King Ibn Saud agreed with the United States on construction of a strategic air field at Dhahran. The United States, on April 2, 1957, concluded a new agreement with Saudi Arabia which provides for the use of facilities at this important air field for an additional five years. The United States thus retains operation of the only landing and refueling point for its aircraft between Libya and the Philippines.

As part of the same agreement, the United States will continue to supply training services and equipment to the Saudi Arabian armed forces. Saudi Arabia is being permitted to purchase military equipment from the United States under the provisions of Section 106 of the Mutual Security Act of 1954. The United States will also provide economic assistance for two projects of mutual benefit, a new civil air terminal at the Dhahran air field and an expansion of facilities at the nearby port of Dammam. This represents the extent of present United States assistance to Saudi Arabia.

It is also pertinent in this connection to note the significant role which King Saud is currently playing in the Near East. Saudi Arabia has given and is giving important support to help combat the menace of international communism. Saudi Arabia has no relations with the Soviet bloc.

**QUESTION NO. 62**

Did the U. S. spend \$501,000 for wage and position classification studies in the Philippines?

**ANSWER:**

ICA did spend approximately \$397,000 for a Wage and Position Classification Survey in the Philippines and the Philippine Government financed approximately \$1.2 million in local currency of the project cost. This particular project had as its purpose the development of a comprehensive position classification and compensation plan for all civil service positions in the Philippine National Government, and the training of personnel to continue such work. The project initially envisioned covering 45,000 positions of the National Civil Service at an approximate dollar cost of \$145,000. It was entered into at the request of the Philippine Government as a first step toward the implementation of one of the recommendations of the Bell Mission that a special effort be made to improve the public administration because of its crucial importance to the success of the economic development program and in order to give the people confidence in the government.

The Bell Mission, an economic survey group, found that the outmoded and inadequate classification and pay system was a substantial handicap to the Government in its determination to develop a sound program of occupational recruitment and effective personnel management, in retaining competent personnel and eliminating petty graft. Noting the success of the initial project the Philippine Government requested that the project be expanded to include the entire governmental service.

The Philippine Government has expressed great satisfaction with the project and has implemented it by Executive Order placing the classification and pay plan into effect. The Order was hailed by the Commissioner of the Budget of the Philippine Government as being "the greatest act of justice to government employees since the establishment of the Philippine Civil Service." Furthermore, he has publicly stated that the plans and reforms that have been initiated in the Civil Service have provided the basis for the development of an efficient and honest corps of public servants to run their modernized government machinery competently.

The ICA considers that the Wage and Position Classification Survey was a highly successful and worthwhile technical assistance project which enabled the Philippine Government to achieve for the first time a complete knowledge of governmental staffs and their activities and to implement government-wide personnel

administration standards. In fact, the project is considered a keystone to the establishment of sound public administration within the Philippine Government and is providing the basis for continued organizational improvements and redirection in the size of the administrative departments.

The following extract from a speech given by an official of the Philippine Government illustrates the effectiveness of this type of assistance to underdeveloped countries:

"Indeed the Philippine experience proves that the value of public administration technical assistance is not capable of pecuniary estimation. This is so because it deals with the human resources of a country, and while we achieve present practical results from institutional reforms which enable government administrators to do a management job, these have multiplier effects in the future from the continued influence which such reforms will exert in the management of our government. Thus, I say to you who are here: Public administration technicians shall have worked themselves out of their jobs, but the changes and reforms they have initiated here will continue long after ICA technical assistance is gone. Because you will have left us richer in outlook and equipment, and no money can measure the fact that we shall be able then to stand alone, to take care of ourselves. This, I think, in a nutshell is the significance of all your efforts.

\* \* \*

"In other words, public administration technical assistance in under-developed countries is, and can continue to be, of incalculable value by making possible economy and efficiency in government operations. While loans and grants and commodity assistance are also vitally important, only an honest, competent and efficient public administration can insure that these added resources will not wholly or partially, go to waste or down the drain.

"When ICA missions in the underdeveloped countries of Asia shall have been able to maximize government services with the limited resources of these countries through improved public administration, as in the case of the Philippines, then I say that you have made a tremendous contribution to the cause of these countries and you deserve to be congratulated for a job well done."

QUESTION NO. 63

Did the U. S. build a beet sugar refinery in Iran even though there were insufficient sugar beets to feed the refinery?

ANSWER:

The United States, in June, 1952, and June, 1953, agreed to provide funds to the Plan Organization (PO) Iran to permit PO to complete its already existing contract obligation to pay a German firm for supplying and erecting three beet sugar refineries in Iran. In each case, PO was unable to provide the required funds itself, and its inability to do so jeopardized the sums already paid on the contract.

The United States objective, in providing this assistance, was partly to prevent the loss of the substantial investment already made by PO. It was also to assist in developing the economic resources of Iran by stimulating capacity in the production and refining of beet sugar; improving techniques and skills in construction and operation of sugar processing units; stimulating the growing, processing and marketing of sugar beet products; and the alleviation of unemployment, and the resultant poverty and distress.

One of the problems in the beet sugar industry in Iran that had to be dealt with simultaneously was the poor quality of the beets as sources of sugar (indeed there has never been a shortage of sugar beets, but only of adequate quality sugar beets); and consequently the project agreement that funded the Bardsir and Cheneran plants specifically provided that the project would include simultaneous activity to assure the cultivation of higher quality beets in the areas supplying the factories; and set out specific undertakings on the part of the two governments to accomplish this purpose. Other phases of the project included teaching farmers of the area to utilize by-products of the sugar factories and training in necessary managerial skills.

Unfortunately, all phases of the project did not work equally well; and it is true that there have not always been beet sugars of adequate quality available in adequate supply.

However, the situation has improved and there has been a net advantage to Iran from the projects. The output of the three factories has increased from approximately 13,000 tons in the 1955 season to over 130,000 tons in the 1957 season.

QUESTION NO. 64

Eugene Castle has stated that foreign aid has already cost twice as much as all the social security benefits plus aid to the aged, blind and disabled and that it has cost 3 times as much as our farm programs and 7 times as much as all atomic energy programs.

- (a) What has been the cost of each of the programs described above?
- (b) What has been the cost of the military assistance program and of our various nonmilitary assistance programs?

ANSWER:

(a) The expenditures of the Federal Government for the several programs cited for the period July 1, 1948, through June 30, 1957, are as follows:

- 1. Social Security benefits plus aid . . . \$59.2 billion to the aged, blind and disabled
- 2. Farm programs . . . . . 26.4 "
- 3. Atomic energy . . . . . 13.1 "

(b) The cost of the Mutual Security Program from April, 1948, through June 30, 1957, is as follows:

- 1. Military assistance (grants) . . . . . \$20.1 billion
- 2. Economic assistance (grants and loans).. 22.5 "
- Total \$42.6 billion

QUESTION NO. 65

It has been charged that we squandered money in Iran, building roads that led to nowhere, financing dams that were never built, and turning over huge sums of money to the Iranian Government to squander needlessly.

- (a) Are any of these charges correct?
- (b) What is and was the purpose of the Iranian program?
- (c) What has it achieved?

ANSWER:

- (a) None of the charges is correct.

The references to "roads that led to nowhere" and "financing dams that were never built" presumably refer to the Karaj Dam construction project in Iran and the access road which leads to it. This road is an arterial highway running from Tehran to the vital Caspian area. It was necessary to relocate this road from a position which will eventually be covered by the Karaj Dam Reservoir. The road also serves as an access road to the construction site during the building of the dam.

The Government of Iran is proceeding with the construction of the dam from its own funds, since the dam is required to provide a much needed source of water supply for the rapidly growing capital city of Tehran. In October 1957 the Iranian Seven Year Development Plan Organization signed a contract with Morrison Knudsen International in the amount of approximately \$41 million for construction of the Karaj Dam and an 84,000 KVA power generating station. It is estimated this work will be completed in the summer of 1961.

The allegation that huge sums of money were turned over to the Iranian Government to squander needlessly apparently has reference to the Van Rensselaer article stating that "When there weren't enough ready projects, for which to obligate funds, Warner, with the approval of his Washington chiefs, distributed U. S. checks directly to Iranian Ministers. He provided cash with which the Iranians not only met their regular government payrolls but raised their own salaries." The fact is that there are always more projects than funds available. However, the U. S. did assist the Iranian Government in meeting its payroll during the chaotic period following Mossadeq's fall. From May 1951 until the

fall of 1954, the Iranian Government's gross income from oil production was only approximately \$12.7 million, received during the early months of 1951. This was wholly inadequate to finance both the government's regular operating budget and the development plan. The Iranian Government did raise some salaries of its civil service because of the wild inflation which was sweeping the nation at the time and in order to consolidate the loyalty of the civil service behind the new Zahedi Government. No direct contributions for general budget support have been made from either FY 1957 or FY 1958 funds.

The "distribution of checks directly to Iranian ministers" involved ceremonial presentations in order to publicize U. S. assistance at a time when such a demonstration was deemed extremely important to the political situation.

(b) The Iran program has given primary support for different objectives at different periods as in the circumstances the U. S. interest required. After the cessation of oil revenues, due to the nationalization of the oil industry, the Iranian Government fell into increasingly desperate financial straits. From 1951 to 1953, during the historic and bitter internal Iranian political struggle with the Communist Party, U. S. assistance served to prevent economic collapse and a take-over by a Communist-controlled regime. The basic Technical Cooperation program begun in 1951 was continued, but additional aid was also made available for essential imports and to maintain employment. These programs prevented the collapse of economic activity, demonstrated U. S. interest in Iran and encouraged non-Communist elements to resist Communist pressures.

After the fall of Mossadeq and the accession to power of a pro-Western Government in August 1953, a sizable increase in U. S. assistance was regarded as necessary to enable the new government to survive and to undertake to develop its own resources and negotiate an oil agreement. The new government had come to power at a time when the country was near to economic collapse and the treasury was virtually without funds. The new government was without resources to provide for normal governmental functions, civil and military. Immediate budgetary aid from the U. S. enabled the government to carry out normal functions, to pay civil and military salaries, and to consolidate the civil service and military establishment behind the new pro-western regime. Without such emergency aid it is likely that the situation would have deteriorated still further and it is unlikely the new government could have survived to make the settlements and adjustments for a new economic and administrative start.

The next stage in the MSP program for Iran began with the oil settlement in 1954, and the subsequent gradual restoration of oil revenues. U. S. economic aid, especially direct budget support, has declined as oil revenues have increased, and a substantial portion of total aid has been in the form of loans repayable in dollars. Even in the past few years, however, Iran has experienced difficulties in attempting to finance an increasingly heavy military burden brought about by Iran's membership in the Baghdad Pact, while simultaneously financing a rate of economic development consonant with the awakening aspirations of the population. Loan and grant assistance, on an annually diminishing scale, therefore continued to be made available to Iran in connection with technical assistance, economic development and military construction. No direct contributions for general budget support have been made from either FY 1957 or FY 1958 funds.

(c) The Mutual Security Program in Iran can be credited with assisting significant achievement toward fulfillment of U. S. objectives. In contrast to the economic prostration, administrative chaos, and Communist subversion that characterized the period 1951-1953, Iran today is able to undertake a diversified economic development program; internal security has been restored; and a strong, pro-Western Government is participating actively in regional defense arrangements such as the Baghdad Pact. To enumerate in detail the accomplishments of the balanced programs that were undertaken would require an extensive presentation. Some specific illustrations of what the program has meant to individual Iranians, to the Iranian economy, and to Iran's capacity to meet its needs may be drawn from among the following examples:

- More than 90,000 Iranians have attended training courses within Iran in various fields in the past five years.

- Karaj Agricultural College has been developed to supply critically needed Iranian agricultural experts.

- Vocational Agricultural Schools at high school level have been established in each province.

- The U. S. has helped to establish an agricultural extension service which has trained thousands of Iranians in pest control, irrigation methods, seed treatment, machinery maintenance, livestock production, etc. This has resulted in increases in agricultural production in many areas.

- As a result of the Community Development program more than 9,000 self-help projects were undertaken by Iranian villagers last year (for example -- 400 schools, 700 pieces of road, 400 bridges).

- Better teaching methods and textbooks have been introduced into Iran schools; more than 30,000 teachers have been trained.

- As a result of an adult literacy program, more than 200,000 adult Iranians have learned to read; 300,000 more will be literate this year.

- The U. S. has helped to combat disease (8 million people have been vaccinated against smallpox alone); sanitation programs have stimulated the installation of thousands of sanitary toilets and the digging of wells to obtain pure water.

- In the labor field, 36 factory supervisors trained in job instruction have in turn trained about 250 supervisors in 15 factories. Craft training programs have been established for foundry workers, machinists, boiler workers, etc.

U. S. assistance to industry has been primarily in Iran's three basic manufacturing and processing requirements, building materials, textiles and food. We have helped Iran to improve cement production both at Rey and in the new cement plant at Shiraz. We also have equipped this area's first building materials research and testing laboratory at Tehran University.

American technicians also are working with such varied other industries as lumbering, glass and bottle making, machine parts manufacture, fisheries, match making, soap production, furniture manufacture, foundries and mines.

We have been helping Iran for the past several years with a program to survey water resources, establishing stream gauging records and land classification, for wise planning of future development of water resources.

In two years technical assistance enabled the Iranian National Railroad to double its freight hauling capacity between the Persian Gulf and Tehran without new equipment.

More than 500 men are being trained in the use of modern mechanized highway maintenance machinery.

We have been working with the Ministry of Posts and Telegraph to establish telephonic communications between all of Iran's major cities. In the same way we have helped make possible good air communications in Iran by assisting in the development of communications and air navigation facilities.

More than 90 full-time graduate students have completed their

work in the Public Administration Institute in the University of Tehran; 140 part-time graduate students have received training, and about 900 part-time students have been trained at the undergraduate level. The impact of this training program in both private business and industry, and in governmental efficiency will have a bearing on development.

We also are assisting the Government of Iran in meeting its recognized need for administrative improvements in various ministries. The United States is furnishing general public administration consultants to each of the Ministerial Under-secretaries except those in the Ministries of Foreign Affairs and Defense. Considerable progress is being made by the regular Government Ministries in Fiscal Administration - budgeting, accounting, auditing and revenue administration, including customs.

## QUESTION NO. 66

In the suburbs of Manila, we built row after row of individual bathrooms on small lots - on the theory that people would buy the lots and build neat, little homes around the bathrooms. Unfortunately, the Filipinos didn't like the idea and so the rows of bathrooms just sat there. I might add that this landmark in our efforts to raise the living standards of backward people came to be known as Flushing Heights.

### ANSWER:

It is believed that this criticism is in reference to a project begun in 1952 by the Philippine Government with United States assistance to resettle homeless squatters, many of whom were subject to communist propaganda, and to alleviate unsanitary conditions in the city of Manila. The facts concerning this project are as follows:

In 1952 a number of Philippine Government agencies including the People's Homesite and Housing Corporation, sought to solve the problem arising from the post-war housing shortage by the development of a low-cost public housing project. It was anticipated that squatters living under unsanitary conditions in the war-ravaged Philippine capital could be encouraged to build homes on a self-help basis by providing them with land and with essential utilities to provide for minimal living and sanitary needs.

For the project the National Planning Commission planned a self-contained community including basic sanitary and utility facilities. A tract of government-owned land was subdivided into 997 lots of 200 square meters each. Streets, sewers and water mains were installed in the subdivision. To ensure adequate sanitation separate toilet and bathing facilities for the occupants of each lot were installed in a small structure at the intersection of every four lots. The project was not immediately successful, however, due to the inability of various agencies of the Philippine Government to carry through the original plan of providing credit for building materials, supervision of construction, and arranging transportation facilities for the proposed inhabitants of the subdivision who were mainly employed in the Manila dock area about 10 miles from the subdivision. In recognition of the fact that some sort of public aid was necessary to alleviate the serious housing problem, the Philippine Government subsequently decided to carry through the project as a government venture by constructing the homes and renting them to the very low income squatter families. The necessary appropriations were obtained and the People's Homesite and Housing Corporation, a Philippine Government agency, was given continued responsibility for the project. At the present time 974

four-room duplex type bungalows have been constructed, renting for the equivalent of \$20 to \$30 monthly. It is planned to construct an additional 14 units. Attractive gardens surround the houses and the development has proved successful as a low-rent public housing project.

ICA contributed approximately \$72,500 to the total project for the necessary dollar costs and the Philippine Government financed the equivalent of \$2,613,343 in local currency from its appropriations. The local currency equivalent of \$731,343 was derived from counterpart funds.

QUESTION NO. 67

The charge has been made that unfair foreign competition is closing the doors of numerous American industries. The charge continues that we are sending our technicians and machines to foreign lands to provide the "know-how" to produce goods that will destroy markets of our own.

ANSWER:

It is true that under the economic assistance and technical cooperation programs authorized by the Mutual Security Act, ICA and its predecessor agencies have sent equipment and technicians to foreign countries. The equipment has been furnished to rebuild the industries destroyed in Europe by World War II and to assist in the economic development of the underdeveloped areas of the world. Technical assistance has been furnished to countries to increase their standard of living and strengthen their economies.

The furnishing of equipment and technical assistance is aimed at achieving the prime purpose of the Mutual Security Program. This purpose is to enable the United States to survive in a world in which nations have been able to remain free through the achievement of strong and stable economies.

Although this is the principal purpose of the Mutual Security Program, the Program has had the additional effect of creating jobs in the United States and increasing the export trade of the U. S. through the building of economies which can afford to purchase goods from this country. Therefore, it would appear that if anything the operation of the Mutual Security Program has had just the opposite effect from that indicated in this question.

In the calendar year 1955, it is estimated that the employment of 600,000 persons in this country was directly attributable to U. S. aid programs. Furthermore, it has been demonstrated that the more developed a country is the better customer it is for U. S. products. U. S. exports in 1955 to various countries were as follows per inhabitant in each country:

Developed Countries

Canada	\$205.27
Netherlands	44.47
United Kingdom	17.88
Germany	11.90
Japan	7.16

Underdeveloped Countries

Egypt	\$3.40
Iran	2.55
Indonesia	0.91
Pakistan	0.70
India	0.49

QUESTION NO. 68

The charge has been made that while rice production is less here than in Korea our technicians have gone there to try to tell them how to raise rice. Have we sent technicians to Korea to assist in raising rice?

ANSWER:

We have not sent technicians to Korea specifically to teach rice culture, but we have sent technicians to supervise reclamation and irrigation projects and to teach better use of pesticides and fertilizer, which have definitely had the effect of increasing the rice yield along with other agricultural commodities. It is not relevant to compare rice production in the United States with that of Korea. The important thing is that we do have technology to adapt to and impart to the local situation in Korea whatever the agricultural commodity. Increasing Korea's overall production in order to decrease its dependence on the United States is one of the main purposes of the aid program. Since South Korea's population is nearly three-fourths agricultural; and since historically rice is the staple food for the people, it would be impossible substantially to increase Korea's overall production without increasing the rice harvest.

The bountiful rice crop of 1957 was one of the reasons why inflation was stemmed that year. Previously for successive years there had been rampant inflation which saw price indices rise 40% or more annually.

Even with the bountiful rice harvest in 1957, Korea still required an additional \$37 million (commodity cost) of U. S. wheat and barley imports. This is because the population in South Korea, due in part to the movement of refugees from the north, has increased faster than the production of food.

QUESTION NO. 69

Eugene Castle has charged that the United States financed a survey to ascertain the sexual habits of the inhabitants of India. Was such a survey undertaken? What was its purpose? What was its justification?

ANSWER:

Insofar as ICA or its predecessor agencies are concerned this statement is not true. India has been and is conducting studies of this type in connection with the problem of population pressure, assisted by U. S. private groups and UN agencies.

QUESTION NO. 70

The charge has been made that the administration has misrepresented the amounts of aid furnished to the Middle East and to Asia by the United States and by the Soviet Union over the course of the last 3 years. Are you aware of any reason why there should be confusion and misunderstanding of this matter?

What are the figures for the United States and what are the figures for the Soviet Union?

Answer:

ICA is not aware of any misrepresentations by the administration on Soviet Bloc and U.S. aid figures. Possible confusion in respect to such figures could flow from the many difficulties involved in making exact comparisons between the value of Sino-Soviet Bloc aid and U. S. aid. (See the full analysis of these difficulties in the report on Communist Bloc Assistance Activities made last year to the Senate Special Committee to Study Foreign Aid, pp. 619-767, Senate Document 52, 85th Congress, 1st Session.) These difficulties are in large part due to the different characteristics of the two aid programs and to the fact that Bloc credit and grant agreements with recipient free world countries are mostly commitments of lines of credit to be drawn over a period of years. In the nature of the ICA operation, there is no commitments stage comparable to the commitments made by the Soviet Bloc. As the nearest approximation, therefore, with minor exceptions, data on obligations are used to indicate ICA commitments for comparison purposes.

The following table shows the estimated value of Sino-Soviet Bloc credit and grant economic assistance to Middle East, Asian and other free world countries compared with U. S. Government non-military credits and grants to these countries, on a roughly comparable value and time period basis. Aid from the Sino-Soviet Bloc rather than just the USSR is given because this assistance is to a great extent coordinated by the USSR or made available through satellites as "fronts"; the bulk is from the USSR. U. S. aid includes ICA nonmilitary aid (defense support, development assistance, technical cooperation), that portion of PL 480 Title I local currency made available for economic development and trade, PL 480 Title II assistance, and new Export-Import Bank credits for this period. The calculations are based on the period mid-1955 to January 31, 1958.

**Sino-Soviet Bloc Credit and Grant Economic Aid  
to Middle East, Asian and Other Free World  
Countries Compared with U. S. Economic Aid to  
these countries, Mid 1955 - January 31, 1958.**

(Estimated in Millions of Dollars)

	SINO-SOVIET BLOC	U. S.
Total 16 countries .....	<u>1,574</u>	<u>1,699</u>
<u>Middle East and Asia</u> .....	<u>1,097</u>	<u>1,001</u>
Afghanistan .....	136	47
Burma .....	42	24
Cambodia .....	22	96
Ceylon .....	20	11
Egypt .....	235	16
Ethiopia .....	5	39
India .....	295	419
Indonesia .....	109	120
Nepal .....	13	7
Syria .....	194	0
Turkey .....	10	222
Yemen .....	16	0
<u>Other Areas</u> .....	<u>477</u>	<u>698</u>
Argentina .....	6	118
Brazil .....	2	425
Iceland .....	5	20
Yugoslavia .....	464	135

QUESTION No. 71

The charge has been made that the United States took the initiative in discussions with India concerning loans for the Second Five-Year Plan. Is this correct?

ANSWER:

No.

As originally drawn up, the Second Five-Year Plan required substantial foreign assistance for its completion, and it was known that the Government of India would explore possible sources of external aid. As the need for additional foreign assistance for its Plan has become more acute, the Government of India has initiated talks with the IBRD, the United States, and other countries.

The success of the Indian development effort under a free world orientation continues to be of the greatest importance to U.S. security interests. The United States has, therefore, been concerned with the progress of India's development program and discussions with the Indian government have been held in the normal course of diplomatic relations.

## QUESTION NO. 72

The charge has been made that our foreign aid frequently causes inflation in the recipient countries and thereby creates stresses and strains which do incalculable harm to the interests of the United States.

- a) Is this correct?
- b) If so, what is done to offset the effects of inflation?

### ANSWER:

It is true that unless proper practices are followed, large expenditures on military forces or on capital investments carry with them inflationary tendencies. The Mutual Security Program, however, far from contributing to inflation, seeks in two ways to permit such important military or economic activity to be carried on with reasonable stability; first, by encouraging conservative fiscal practices including, where necessary, the furnishing of appropriate technical assistance in financial practices, and second, by furnishing goods which, when introduced into the economy, help to offset the effects of heavy expenditures. The success of this program in so doing may be seen, for example, in Korea where, after several years of sharp rises, prices in 1957 levelled off and showed a slight decline.

Inflation is the result of too few goods and services in relation to the demand for them. Mutual Security programs bring additional goods and services into the economy of recipient countries. Therefore, the direct effect of these programs is more frequently counter-inflationary. However, many of our largest programs have been in countries where inflation was already well under way, frequently as the result of heavy military burdens. Thus perhaps observers, seeing that inflation existed in large aid receiving countries, assumed that the aid caused the inflation, whereas the reverse would have been usually true.

Although, as some critics say, military efforts create inflationary pressures, nevertheless U.S. military aid programs do not cause such pressures. In fact, by relieving the hard pressed finances of the receiving countries, our military aid reduces inflation relative to what it would have been if the country attempted to carry out the same military effort unaided.

Similarly, one can say that development projects cause inflation by putting more wages into the hands of workers without, in the short run, producing more goods to offset these wages. It is clear that development cannot go forward without capital and it is

in our interest for development to go forward. Moreover, it may frequently be true that without U.S. assistance, less development would have been attempted. If the net effect of U.S. aid were simply to increase the amount of capital investment and nothing else, it would carry inflationary pressures. However, U.S. programs are worked out jointly with the host government to assure that increases in capital are balanced by increases in consumer goods or by decreases in non-capital expenditures or both. As a result, the net effect of our assistance, in most cases, is a stabilizing rather than an inflationary effect.

QUESTION NO. 73

It has been alleged that we are giving aid to socialist countries and thereby furthering the spread of socialism. Is this correct?

ANSWER:

Aid is being given to some countries which profess to be "socialist", either in their constitutions or in the official platforms of the local political parties in control of the governments.

President Eisenhower has said: "We have no desire or intent to subjugate or subvert other peoples - no purpose to change to their chosen political, economic or cultural patterns - no wish to make any of them our satellites. We seek only to further the cause of freedom and independence and to develop the military strength necessary to protect and defend it, in the interest of peace."

If, in the implementation of our assistance programs, we were to attempt to dictate the form of economic policy that other countries should follow, our efforts would be worse than useless. Traditions and attitudes toward private enterprise differ in other nations and the leaders of those nations could be expected to resent demands for change of their adopted economic systems as an affront to their sovereignty and independence.

To demand conformance to U. S. standards as a condition of aid would furnish ammunition for the Communist propaganda offensive.. For the Communists would contrast these "strings" on U.S. aid with their own assistance programs which do not overtly attach such strings and which, in fact, are being pressed most vigorously in these uncommitted countries whose political and economic standards often differ far more from Communist standards than they do from our own. The Communists would point to such conditions as convincing evidence to confirm their charge that it is not the U. S. but the Soviet Union which is really seeking to build political and economic independence in other countries. This could seriously damage our position, not only in socialist countries, but in other newly independent countries.

In short, we provide assistance to free countries not because of the particular way in which their economies are currently organized, but because they are free and because, if we didn't provide this assistance, these nations would be more likely to lose their freedom to Communism.

On the other hand, the Mutual Security Program does contribute to spreading the ideas of free enterprise. But it does so not by compulsion, but by assistance, persuasion, demonstration and example.

A number of specific activities are carried out under the Mutual Security Program which assist the growth of private enterprise abroad, including:

- (a) the ICA Investment Guaranty Program;
- (b) ICA provision of dollar and local currency loan funds to private enterprises through local development banks;
- (c) direct loans to private enterprise which are planned under the new Development Loan Fund;
- (d) worldwide technical assistance to industrial productivity programs;
- (e) technical assistance in the field of labor which serves to strengthen free labor unions;
- (f) technical and other assistance to agriculture, which represents a very large private enterprise sector of the economies of most of the countries in which we operate;
- (g) bringing of many hundreds of trainees from cooperating countries to the U. S. to study U. S. industrial and business approaches and methods;
- (h) development of local academic and in-service training programs in business administration;
- (i) technical assistance to cooperating countries in drafting laws and programs for encouraging foreign and local private investment;
- (j) use of a high proportion of total economic and technical assistance funds to assist in the development of the basic facilities - ports, roads, power supplies, schools, health services, etc. - which must be present before private industrial development on a large scale can take place.

In its administration of the Mutual Security Program as well as in other activities, this Government has consistently stressed the importance of domestic and foreign private investment in the development of the economies of other countries. The United States has often indicated the belief that the expansion of the private sector would make a major contribution to the development of many underdeveloped

countries. Public funds will probably never be available, nor should they be made available, in sufficient quantity to meet all the investment requirements of underdeveloped countries. Some fields, for example industrial and extractive enterprises, are generally more attractive to private investment than are other fields, but there will be occasions when the use of public funds for such projects in the public sector will be in the interests of both the United States and the recipient country.

QUESTION NO. 74

We helped erect cotton plants in Korea - where there is not native cotton.

ANSWER:

This statement is partially untrue and generally misleading. There is native cotton in Korea, though of an inferior quality; and we have not "helped erect" cotton plants in Korea although we have supplied textile machinery to rehabilitate textile plants damaged during the Korean war.

ICA has not contributed funds to establish any new cotton textile mills in Korea. All assistance furnished has been for the rehabilitation and expansion of existing cotton mills damaged during hostilities. Precise statistical information is not readily available indicating the amount of U.S. assistance for this purpose, but it is believed to be less than one-half of the approximate \$7 million contributed to supply all types of textile machinery and equipment.

The Korean native cotton is of inferior grade and for this reason not more than 10 to 15% is used by textile mills. The bulk of it is used for padding and for home spinning.

Since Korea cannot, from its own raw materials, produce the amount of textiles required in the Korean economy, it must import either finished textiles or raw materials for domestic textile production. The importation of finished textiles would drain Korean foreign exchange resources to a much greater extent than importation of raw cotton to be used for domestic textile manufacture. Because the lack of adequate foreign exchange is one of the most serious problems confronting Korea, it has been a basic U.S. objective to adopt aid policies which would assist Korea to reduce its foreign exchange deficits. In addition, since the U.S. through the aid program has been covering those deficits, it has been considered important to reduce them as a means of reducing the magnitude of U.S. assistance required for the Korean economy. Accordingly, it has been ICA policy to meet the cotton textile deficiencies by supplying raw cotton from surplus U.S. stocks instead of finished cotton textiles. It was for this purpose that ICA has provided the assistance required for Korea to purchase cotton textile machinery. Foreign Exchange thus conserved for Korea becomes available to import critically needed commodities which cannot be produced or fabricated locally.

A further result of the ICA policy has been the creation of a market in Korea for U.S. surplus cotton as well as for exports of U.S. textile machinery. Korea has already imported under the FCA/ICA assistance program over

\$132 million of surplus U.S. cotton (approximating 875,000 bales). Had ICA financed textiles, they might well have come from a source other than the U.S. under the ICA policy of financing commodities from the lowest free-world source as a means of conserving U.S. aid funds and thus reducing the burden on U.S. taxpayers.

It is interesting to note that the Korean textile industry was developed during the period of Japanese domination. Although Japan itself was a large textile producer and exporter, the Japanese recognized that development of a textile industry in Korea was economically sound and desirable for Korea. The textile industry now employs more people than any other manufacturing industry in Korea, and the rehabilitation of this industry has been an important part of the U.S. assistance program to establish a viable economy for Korea.

QUESTIONS NOS. 75 and 76

We helped put up flour mills in Korea and Formosa - where there is little or no wheat.

ANSWER:

The statement is partially true but generally misleading. The assistance furnished has been beneficial to the economies of both countries.

(a) With respect to Korea, \$1,135,000 worth of equipment for construction and rehabilitation of flour mills has been delivered under the ICA aid program since FY 1955. The circumstances behind this action are as follows: In former times Korea supplemented its domestic rice supplies with imports of millet and barley from Manchuria in order to meet the food needs of its people. Since hostilities this source of imports has disappeared and the population of South Korea has swollen about 50% from roughly 15 million to 22½ million people. The need for food imports has continued. For example, in 1957 alone, 358,000 metric tons of wheat and 276,000 metric tons of barley were shipped to Korea from the U.S. A part of these shipments was financed with Mutual Security Funds which thus provided a market in Korea for surplus U.S. wheat.

A question might be raised concerning the preferability of ICA financing flour for Korea instead of wheat. The answer lies in the conservation of U.S. aid funds and Korea foreign exchange accomplished through wheat imports. Korea has a critical shortage of foreign exchange and the U.S. aid program has been covering the shortage. Activities which reduce foreign exchange requirements strengthen the Korean economy and reduce the magnitude of U.S. assistance required to support the economy. The conservation of foreign exchange inherent in importing wheat instead of flour is demonstrated in the following example:

The importation by Korea of 90,000 metric tons of wheat flour at approximately \$110- per metric ton landed, would cost \$9,900,000. If the same amount of flour should be made available from local milling, it would require 120,000 metric tons of wheat. To import this amount at approximately \$80 per metric ton, landed, would cost \$9,600,000. However, the milling in Korea would provide the Korean economy with 30,000 tons of residue (bran, shorts and middlings) having an export value of \$675,000. If these \$675,000 are deducted from the cost of the wheat (\$9,600,000), the locally milled flour would have a net cost of \$8,925,000. This is \$975,000 less than imported flour would cost and constitutes the foreign exchange conserved.

(b) With respect to Taiwan, a small grant of \$38,000 was made from ICA funds under the FY 1953 program for rehabilitation of existing flour mills. Since that time about \$70,000 in local currencies (both counterpart and section 402 currencies) have been made available for expansion of grain storage and handling facilities of Taiwan mills.

Taiwan produces a significant amount of wheat - 27,000 metric tons in 1957. The 2nd Four Year Development Plan aims at an annual production of 30,000 metric tons by 1960. Thus local wheat production provides a basis for a small flour milling industry.

Taiwan must import food. Its population has increased 80% since 1938. Despite large gains in farm production, Taiwan has become (if sugar is excluded from calculations) a net food-importing instead of food-exporting nation. To meet food deficiencies the U.S. has shipped surplus agricultural products to Taiwan. For example, 192,000 metric tons of wheat valued at \$12.8 million were shipped from the U.S. to Taiwan in 1956.

The importation of wheat and the rehabilitation of existing flour mills help to (1) conserve both U.S.-aid funds and Taiwan foreign exchange which would otherwise have to be used for imports of more expensive flour; (2) provide employment for the increasing population; and (3) prevent milling equipment from lying idle for lack of parts.

QUESTION NO. 77

In Iran we paid out some \$500,000 for American-made automatic looms to install in a textile plant which had never been properly engineered. The looms required high-grade cotton - of which there was very little - and skilled operators and maintenance men - of whom there were none in the native population. Then we failed to install the power to make the plant operate.

ANSWER:

Pursuant to agreements dated June 28, 1952 and April 22, 1953, both amended, the Technical Cooperation Administration and successor agencies financed the purchase of 304 Draper Automatic Looms for \$486,395.63. These looms are capable of weaving medium grade long or relatively short staple cotton. The purpose of this project was to help Iran become more self-sufficient in textiles, its imports coming chiefly from Japan and Russia.

Iran is deemed capable of procuring the quality and quantity of cotton needed to meet the requirements of this mill as well as others. The Draper Corporation sent two technicians to Iran to install the looms and train Iranians in their operation and maintenance within the limits of available power. In addition, Draper received and arranged for training in the United States of two Iranian technicians. The training requirements were contemplated in the project agreement.

Last Fall the Plan Organization of Iran contracted with United Merchants and Manufacturers, Inc., (New York) to manage and operate the mill. The Plan Organization is financing the foreign exchange requirements of this training contract, by which it is expected the mill will not only become a profitable operation, but its output can become competitive with imported fabrics. United is sending its first cadre of technicians to Iran on March 7 and expects to have the spinning and weaving operations under way later this year.

No power plant was originally scheduled because it was expected that sufficient Tehran municipal power would be available. The obligation, however, to assure that such power would be available rested with the Plan Organization, not with the United States. When it turned out that municipal power was not available, the Plan Organization, after a considerable loss of time spent in determining what kind of power generating equipment should be obtained, ordered such equipment from a German firm.

QUESTION NO. 78

We put up \$450,000 for a tire plant in Korea, and then learned that it was extremely difficult to develop a market for this product.

ANSWER:

In April, 1954, ICA agreed to furnish \$480,000 to supply equipment for establishment of an automobile tire plant in Korea. At that time there was no plant in the country producing tires. The only significant prewar tire producing plant had been severely damaged during hostilities and was not in production. The only other existing facilities were for the recapping of tires.

The new plant, the Hung Ah Tire Company, is a privately-owned enterprise. Following its completion in August, 1956, mechanical difficulties were encountered but subsequently overcome. As a result of delays in achieving satisfactory operation, the plant encountered financial difficulties. The Korean Government assisted the company in alleviating these difficulties and the plant is now operating successfully. It is marketing its entire production of tires, approximately 40,000 units per year. The quality of the tires is satisfactory, and part of the Hung Ah production has been purchased and is being used by the United States Army in Korea.

Hung Ah's initial technical difficulties led to an inability to produce tires of satisfactory quality and this, in turn, gave rise to an impression that a market did not exist for the output of this plant. Actually a market does exist in Korea for the full output of the Hung Ah plant. The present estimate of Korean domestic requirements for tires and tubes is 150,000 units annually. The Hung Ah plant, at maximum production, can produce less than half this amount. U. S. assistance has been granted to provide equipment for another tire producing plant in Korea. When this plant and the Hung Ah plant attain maximum production, their combined output will be an estimated 135,000 units.

With natural rubber readily available to Korea from adjacent Southeast Asia and a sustained need for tires by both the military and the civilian economy in Korea, it is sound for Korea to develop its domestic tire production to meet domestic needs. The tire producing facilities financed for Korea by ICA, even when working at full capacity, will produce only 135,000 of the 150,000 units presently required annually in Korea, but as a direct result of this domestic tire production Korea will annually conserve substantial amounts of foreign exchange which would otherwise be expended to purchase tires abroad. Conservation of foreign exchange assets is a vital objective in the Mutual Security Program for Korea where a critical shortage of foreign exchange exists and where U. S. assistance funds are required to meet the shortage in order to sustain the economy.

QUESTION NO. 79

The charge has been made that "For two years 50 cents of every dollar we poured into Yugoslavia for economic aid leaked out for the payment of principal and interest on Yugoslavia's debts to other countries."

QUESTION:

Has Yugoslavia used our Economic assistance for the payment of principal and interest on its debts to other countries?

ANSWER:

No U.S. dollar aid funds or local currency funds belonging to the United States, or counterpart funds owned by Yugoslavia, have been applied to payment of Yugoslavia's foreign debt.

The result of U.S. economic aid, in the form of commodity imports and services, has been to add to the economic resources and potentialities of the country. Such assistance would serve to lessen the strain which would otherwise have been imposed on the economy by the payment of foreign debt. It remains the fact, however, that our aid was not used for payment of principal and interest on Yugoslavia's debts to other countries.

### QUESTION NO. 80

We spent several hundred million dollars in the purchase of British military aircraft that it was known would be obsolescent when delivered. Meanwhile our assistance enabled the British to release funds from their budget to subsidize the development and production of commercial jet transport airplanes in competition with American aircraft manufacturers and engine builders.

- a) Are the planes described obsolescent?
- b) Did our assistance enable the British Government to spend funds for the development and production of commercial jet aircraft?

### ANSWER:

a) At the very outset, it should be recognized that "obsolescent" is a relative term. In one sense it might be asserted that virtually all military aircraft in operational use today are obsolescent by comparison with later models under research and development or still on the drawing boards. Generally speaking each succeeding model, as it is developed, tested, approved and finally produced, has an effective operational life. During this latter period, of course, new type aircraft or later models of the same type may be approaching the production phase; this fact however, would not normally result in the operational aircraft being termed "obsolete". In a situation of this sort, it is obvious that the term "obsolescent" can be used only with specific reference to all the related facts.

With respect to the U.K. aircraft, the situation is as follows. The U.S. has purchased wholly or in part either through military assistance offshore procurement arrangements or under special budget support arrangements financed from surplus commodity sales proceeds, several types of British military aircraft. These include principally the Hawker Hunter, Javelin, Canberra and Valiant aircraft. At the time that the contracts were negotiated for the Hawker Hunter and the Javelin aircraft, these aircraft were still under development by the U.K., but the U.S. technical experts concluded that they were as promising as any aircraft then under development by the U.S. The contract for the Javelin specifically provided that the aircraft had to satisfy U.S. performance criteria before it would be acceptable. By the time the development of the aircraft had been completed, facilities established, production initiated and deliveries started several years passed. Meanwhile, significant developments had taken place in U. S. aircraft technology due to a U. S. investment of over a billion dollars in aircraft research and development. This investment had no counterpart in Britain. Thus when technical experts again evaluated the

Hawker Hunter and the Javelin aircraft, they concluded that the latter aircraft, particularly, did not meet U. S. performance standards as required in the contract. As a result, some 65 million dollars of the original Javelin aircraft contract in the U. K. was cancelled. In addition some Hawker Hunter procurement was cancelled as a result of reduced requirements.

A number of Hawker Hunter and other British aircraft were purchased, however, in view of several important considerations. In the first place, the higher performance U. S. aircraft would not be available for some time to U. K. units whereas the British aircraft were then available immediately. In the second place, the British aircraft, although "obsolescent" in the sense that more modern types were under development, were capable of effectively performing the NATO air defense mission to which they were assigned. (Many of these aircraft are still adequately performing this mission.) Thirdly, the British were determined themselves to produce their share of the aircraft they had developed, in any event, and it was obviously not desirable to equip U. K. squadrons with both U. S. and U. K. types thus complicating support problem. Finally, contract cancellations in some instances would have involved an unwarranted cost to the U. S.

b) It is difficult to say whether our assistance enabled the British to spend funds for the development and production of commercial jet aircraft in the sense that they would not have undertaken such development if we had not given them aid on military planes.

The aircraft we gave Britain made up part of the total strength recommended by us. Britain informed us at the time of our recommendation that she would not be able to purchase these aircraft out of her own budget. Thus the procurement of these aircraft resulted in an expansion of the military aircraft strength of the U. K. beyond what it would otherwise have been.

United Kingdom plans for the development of civil air transport in the post-war period stem from the recommendations of Barbazon Committee which was appointed in 1943. Since that time successive governments have confirmed the great importance of developing civil aviation and the civil aircraft industry in order to strengthen the U. K.'s balance of payments and build up a strong and healthy aircraft industry as a form of war potential.

No U. S. funds have been allocated to these projects and it appears that the British would have undertaken these projects whether they had received defense assistance or not.

QUESTION NO. 81

In one case a large military aid contract for ammunition to be produced in Europe was taken from the low bidder in one country and placed in another country without due regard for price in order to influence an election.

- a) Is this correct?
- b) What are the justifications?

ANSWER:

Although we do not know what specific case is referred to by this question, it is perfectly true that in certain instances in furtherance of U.S. foreign policy objectives offshore procurement contracts have been directed to a specific country even though the bid submitted may have been less advantageous for one reason or another than that submitted by another bidder. In several instances this has proved to be an effective means of strengthening non-Communist labor unions in a particular plant, or of strengthening overall U. S. relations with a given country. Such cases of "directed offshore procurement" have only been undertaken after careful consideration within the Executive Branch of the various factors involved such as price, military acceptability of the product and the political impact to be gained.

QUESTION NO. 82

During the last few weeks of fiscal year 1956, in an effort to use up all allocated funds, we gave Iran \$34 million in commodity procurement grants although we knew or should have known that Iran's capacity to receive and absorb these commodities did not exceed \$1 million per month.

Is this true?

What was the justification?

ANSWER:

No. Program decisions were not made at the end of the year in an effort to use up funds. The funds referred to were not allocated during the last few weeks of FY 1956, nor was the decision to finance commodity procurement made at that time.

In all, a total of \$65.5 million in FY 1956 defense support and technical cooperation funds was provided to Iran. The amounts involved had been announced in January or February of 1956 and the total was fully known to the Government of Iran in February 1956. The \$34 million in commodity procurement grants may be meant to refer to the issuance of procurement authorizations in April 1956, which were obligating and implementing documents issued pursuant to earlier decisions and commitments with respect to the aid program for the year.

As for the objection to the determination to implement the program by commodity procurement, the criticism seems, further, not to take into account the nature and objectives of the aid program in Iran, which has resulted in changes in emphasis and in methods of implementing programs from time to time. Though Iran's situation was improved as its oil revenues gradually increased after the settlement of 1954, it still experienced difficulties in attempting to finance a heavy military burden related to Baghdad Pact objectives while simultaneously supporting provision for economic development at a rate consonant with awakening aspirations of the Iranian people. Both loan and grant aid has been made available in connection with technical and economic assistance and military construction and the objectives and requirements of these programs have governed the aid decisions. Thus the local currency requirements for the U. S. supervised military construction program and for other U. S. commitments have been provided either by financing imports which permitted mobilization of the generated local currency for the uses desired or when necessary or desirable by direct exchange of dollars for local currency. Under the commercial practices which prevail in Iran it has been difficult

at times to meet anticipated scheduled requirements by channeling private importers' transactions through ICA procurement procedures. This is not the same thing, however, as saying that the commodities were in excess of Iran's capacity to receive and absorb them. The effect of the aid program as a whole has been to afford the local currency support desired for U. S. objectives and to meet program needs.

QUESTION NO. 83

In South Vietnam, South Korea, and Iran, when we could not find enough projects upon which we could get rid of our aid funds, we handed the local officials, from time to time, United States Treasury checks running into many millions of dollars as a form of budget support. No one really knows how these funds were used and where they were spent.

ANSWER:

Although U.S. dollar checks have been turned over to the Vietnamese Government for budget support, it is not true that this was done because of a lack of projects for their use, nor is it true that no one knows how these funds were used.

In the emergency situation prevailing in South Vietnam immediately after the war in Indochina, U.S. aid was urgently needed to help the Vietnamese Government meet the costs of supporting its military forces, and of evacuating and resettling some 660,000 civilian refugees that had fled from Communist North Vietnam. Most of these costs were in local currency which, in normal circumstances, would have been met by importing commodities into Vietnam and selling them for piasters. However, because of the newness of the program and the substantial time lag between the issuance of commodity Procurement Authorizations (PA's) and the arrival and sale of the imported commodities in Vietnam, it was not feasible to meet all these requirements through normal local currency generating procedures. It was necessary, therefore, to purchase a substantial amount of the piasters required for these purposes directly from the Central Bank, primarily with U.S. dollar checks.

The foreign exchange thus made available has since been used by the Vietnamese Government for purposes which the U.S. Government has approved. These funds have been used primarily for imports of commodities needed for consumption or to maintain production in Vietnam.

No direct dollar grants were made to Vietnam after FY 1956. Since then it has been possible to meet piaster commitments, on a current basis, from local currency accruals on saleable commodities in the pipeline.

QUESTION NO. 84

In South Vietnam, South Korea, and Iran, when we could not find enough projects upon which we could get rid of our aid funds, we handed the local officials, from time to time, United States Treasury checks running into many millions of dollars as a form of budget support. No one really knows how these funds were used and where they were spent.

ANSWER:

This statement is not true for South Korea. No direct transfer of dollars in the form of cash grant aid has ever been made to the Korean Government under the Mutual Security Program. Although the financial situation of the Government of the Republic of Korea was extremely critical at the time of the armistice, the imports financed under the Mutual Security Program generated a sufficient amount of local currency to meet support requirements of the military budget.

A significant portion of the local currencies derived from the sale of commodities imported to Korea under the Mutual Security Program is used to lend support to the military budget. The amount of local currency support is determined after review of the military budget by United States military and civilian authorities in Korea and is subject to approval by the interested offices in Washington, that is, the Department of Defense, the International Cooperation Administration and the Department of State.

QUESTION NO. 85

"In South Vietnam, South Korea and Iran, when we could not find enough projects upon which we could get rid of our aid funds, we handed the local officials, from time to time, United States Treasury checks running into many millions of dollars as a form of budget support. No one really knows how these funds were used and where they were spent."

- (a) Did we hand local officials U. S. Treasury checks?
- (b) If so, how were these funds spent?

ANSWER:

Iran.

(a) During 1952, to dramatize U. S. aid and to provide publicity to U. S. assistance at this critical juncture in Iranian affairs, some checks were ceremonially presented directly to Iranian Ministers to be used by their ministries for mutually agreed purposes; however the actual transfer of dollar funds was made in accordance with procedures and agreements previously arrived at.

(b) The dollar amounts expended by the United States for commodity procurement designed to generate budgetary aid were in all cases subject to U. S. audit procedures. However, because the decision was taken at the outset of the budgetary aid program in Iran that it would be neither wise nor consistent with friendly relations between friendly sovereign governments for the United States to attempt to control the Iranian budget, the Mission did not insist on controls over the expenditure of rial aid comparable with those which might normally have been imposed on project-type assistance. Consequently, it cannot be said that we know how these funds were used and where they were spent in the same way we could account for aid procured by the direct expenditure of dollars or for project-type aid. Nonetheless, it should be pointed out that the budgetary aid was provided in accordance with a planning table which had been developed by the two governments. This table did provide a vehicle for guidance, for obtaining information and for checking on Iranian expenditures. The agency is satisfied that the great bulk of such assistance has been used for the purposes for which it was provided.

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